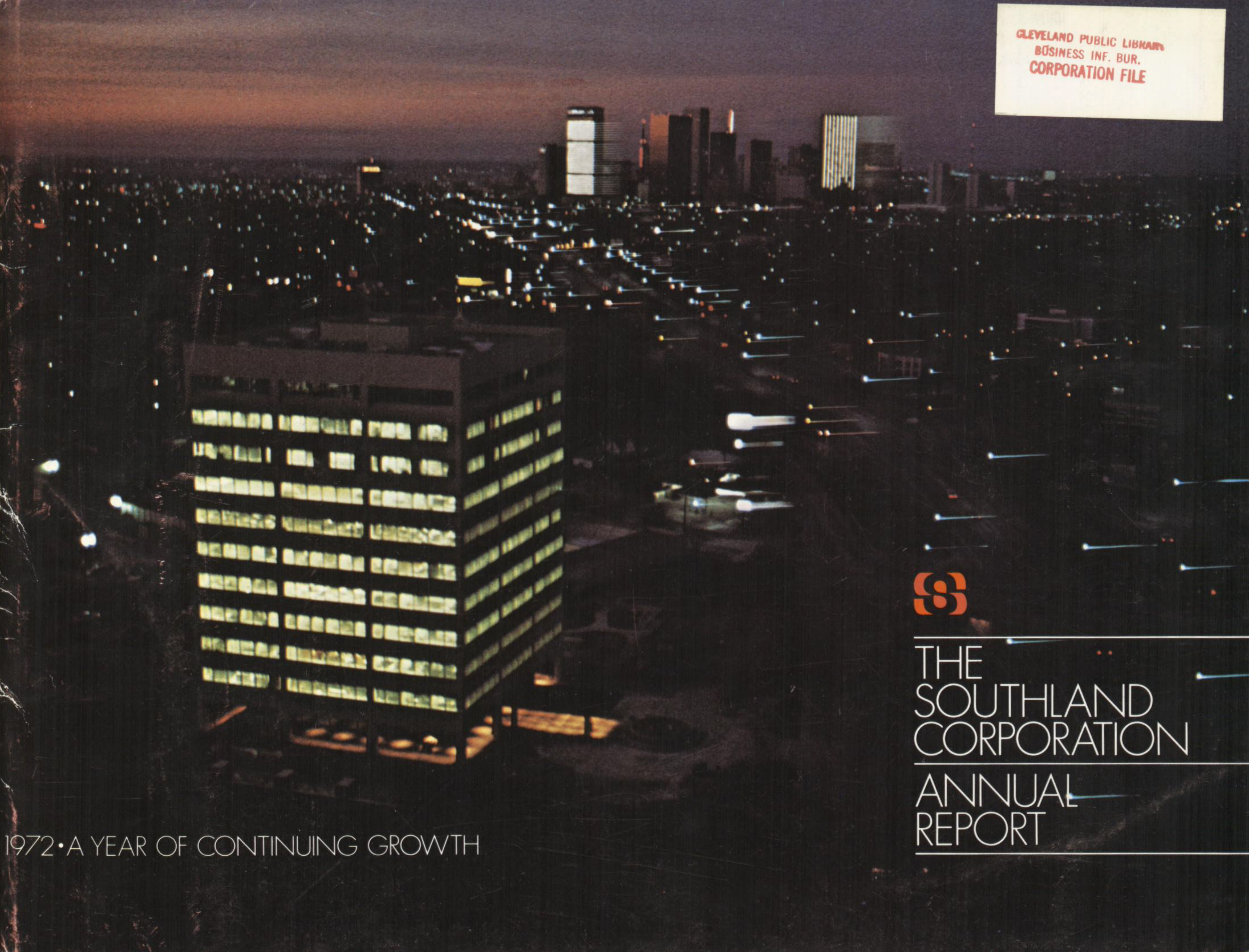

# THE SOUTHLAND CORPORATION

# ANNUAL REPORT

1972 • A YEAR OF CONTINUING GROWTH

ELEVEN FOOD STORES

ELEVEN FOOD STORES

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ELEVEN FOOD STORES

BARRICINI CANDY SHOPS

Loft's CANDY SHOPS

smileys SOUTHLAND FOOD CENTERS

SOUTHLAND DISTRIBUTION CENTER

HARBISONS

HORTENS

MIDWEST FARMS

OAK FARMS

SPRECKELS

VELDA FARMS

WANZER'S

SOUTHLAND-CAVENHAM LIMITED

CAVENHAM-SOUTHLAND LIMITED

# MANAGEMENT REPORT

7 ELEVEN FOOD STORES

7 ELEVEN FOOD STORES

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7 ELEVEN FOOD STORE

7 ELEVEN FOOD STORES

Pak a sak FOOD STORES

GRISTEDE'S FOOD STORES

Charles & Co. PURVEYORS OF FINE FOODS CHARLES & CO.

BRADSHAW SUPER MARK

ADOHR FARMS

BANCROFT

BLUFF VIEW FARMS

BRIGGS

CABELL'S

COOPER FARMS

EMBASSY

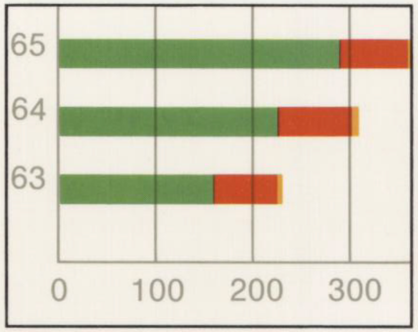
HUDGINS TRUCK RENTAL

Reddy Ice

CHEMICAL DIVISION THE SOUTHLAND CORPORATION CHEMICAL

THE STANFO AGENCY, IN

*COVER:* Dawn illuminates the new 11-story tower of Southland's Corporate Office complex on the Dallas skyline.

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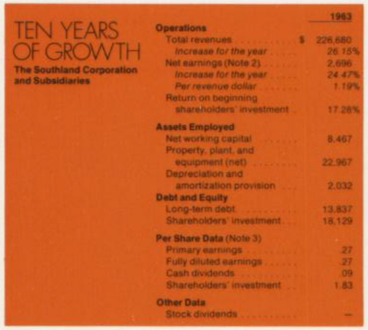

TEN YEARS OF GROWTH

**The Southland Corporation and Subsidiaries**

| | 1963 |
|---|---|
| **Operations** | |
| Total revenues | $ 226,680 |
| *Increase for the year* | 26.15% |
| Net earnings (Note 2) | 2,696 |
| *Increase for the year* | 24.47% |
| *Per revenue dollar* | 1.19% |
| Return on beginning shareholders' investment | 17.28% |
| **Assets Employed** | |
| Net working capital | 8,467 |
| Property, plant, and equipment (net) | 22,967 |
| Depreciation and amortization provision | 2,032 |
| **Debt and Equity** | |
| Long-term debt | 13,837 |
| Shareholders' investment | 18,129 |
| **Per Share Data** (Note 3) | |
| Primary earnings | .27 |
| Fully diluted earnings | .27 |
| Cash dividends | .09 |
| Shareholders' investment | 1.83 |
| **Other Data** | |
| Stock dividends | — |

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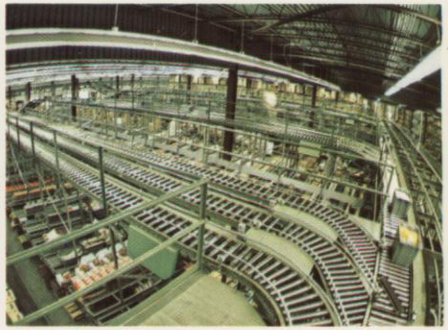

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# CONTENTS

## MANAGEMENT REPORT



## FINANCIAL REPORT



## OPERATIONS REPORT



## SHAREHOLDER INFORMATION

**SECURITIES TRADED:**
**COMMON STOCK**
New York Stock Exchange
**5% CONVERTIBLE SUBORDINATED DEBENTURES**
Luxembourg Stock Exchange

**STOCK TRANSFER AGENTS:**
The Chase Manhattan Bank, N.A.
New York City
First National Bank in Dallas
Dallas, Texas

**STOCK REGISTRARS:**
First National City Bank
New York City
Texas Bank & Trust Company of Dallas
Dallas, Texas

**ANNUAL MEETING:**
The Annual Meeting of the Company will be held at 10 a.m., Wednesday, April 25, 1973, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.

**MAILING ADDRESS:**
P.O. Box 719; Dallas, Texas 75221

**TELEPHONE:**
214/828-7011 (CENTREX)

# THE SOUTHLAND CORPORATION

. . . originated in 1927 the convenience food store concept— 7-ELEVEN.

. . . continues to be the largest operator and franchisor of self-service convenience stores, numbering 4,458 at year end.

. . . operates 329 other grocery stores, sandwich shops, and candy shops.

. . . is a major processor and distributor of milk, ice cream, and related dairy products—14 respected regional brand names.

. . . manufactures and distributes fine chocolates and specialty candies—a variety of fountain syrups, flavor concentrates, and related products for the food industry—cleansing and sanitizing agents and other specialty chemical products—commercial and consumer-packaged ice.

. . . leases trucks to commercial users.

. . . does business in 39 states, the District of Columbia, three provinces of Canada, and Mexico.

. . . has a 50% interest in approximately 1,125 United Kingdom retail outlets—775 grocery stores and 350 candy-tobacco-newsstand shops.

## BOARD OF DIRECTORS

JOHN P. THOMPSON
Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER
President

WEBSTER ATWELL
of Counsel, Atwell Malouf & Bynum

J. Y. BALLARD
Independent Consulting Engineer

WALTON GRAYSON, III
Executive Vice President
Partner, Grayson & Simon

W. W. OVERTON, JR.
Chairman of the Executive Committee of Texas Bank & Trust Company of Dallas

JERE W. THOMPSON
Executive Vice President

CLIFFORD W. WHEELER
Vice President

## OFFICERS

JOHN P. THOMPSON
Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER
President

JERE W. THOMPSON
Executive Vice President

WALTON GRAYSON, III
Executive Vice President, Administration and Services

JOSEPH S. HARDIN
Executive Vice President, Planning and Special Operations

M. T. COCHRAN, JR.
Vice President, Dairy Operations

VAUGHN R. HEADY
Vice President, Store Operations Manager

FORREST STOUT
Vice President, Eastern Stores Region

CLIFFORD W. WHEELER
Vice President, New Areas

W. K. RUPPENKAMP
Vice President, Financial Relations

R. G. SMITH
Secretary and Treasurer

P. EUGENE PENDER
Controller

In addition to the continuing growth in operating results shown at right,

# 1972 WAS THE YEAR OF:

## MANAGEMENT REINFORCEMENT

- Strengthening foundation to become a two-billion-dollar company . . . three Executive Vice President positions established . . . additional Region and Division Managers . . . new Divisions . . . corporate activities expanded.

## EXCHANGE LISTING

- Being listed on New York Stock Exchange . . . trading symbol: SLC . . . first trade of day on August 21.

## CORPORATE OFFICE ENLARGEMENT

- Occupying new 11-story building on schedule in December.

## INCREASED EUROPEAN INVESTMENT

- Purchasing a 50% interest in Cavenham-Southland Limited . . . 775 Wright's and Moores grocery stores in United Kingdom . . .
- Enlarging U.K. interests to more than 1,125 retail outlets.

## FINANCIAL STRUCTURE IMPROVEMENT

- Strengthening Southland's financial structure materially to provide foundation for continued expansion in '70s.

## LARGER DIVIDENDS

- Increasing cash dividend rate by 20% . . . from 20¢ to 24¢ per share . . .
- Distributing 3% stock dividend.

## STORE EXPANSION

- Increasing number of stores from 4,461 to 4,787
  . . . number of convenience stores from 4,115 to 4,458
  . . . number of franchised stores from 1,684 to 1,875.

## MERCHANDISING ADVANCEMENTS

- Intensifying promotion and advertising . . .
- Expanding Southland label programs
  . . . ***HOT-TO-GO*** fast foods
  . . . ***SLURPEE*** Baseball and Football Tradin' Cups
  . . . ***SUNNY SEVEN*** juices, dips, cheeses
  . . . ***SHEERLY BELOVED*** hosiery
- Rediscovering ice cream . . .
- Promoting milk drinking . . .
- Adding ***FARM FIELD*** delicatessen products.

## DISTRIBUTION PROGRAM MATURING

- Serving successfully more than 550 Florida **7-ELEVEN** stores in first full year of operation . . .
- Constructing two additional centers to open in '73.

## DAIRY EXPANSION

- Raising Tulare cottage cheese facility's annual capacity to 14 million pounds.

## EXPANSION OF OTHER OPERATIONS

- Completing major addition to Chemical Division plant . . .
- Adding ***REDDY ICE*** plant in Las Vegas.

# COMPARATIVE HIGHLIGHTS

| | YEAR ENDED DECEMBER 31 | |
|---|---|---|
| **FOR THE YEAR** | **1972** | **1971** |
| Total Revenues | **$1.228,350,265** | $1,085,107,334 |
| Earnings Before Extraordinary Item | **20,365,987** | 17,299,759 |
| Extraordinary Item | **—** | 496,836 |
| Net Earnings | **20,365,987** | 17,796,595 |
| Primary Earnings Per Share* | | |
| Before Extraordinary Item | **1.32** | 1.26 |
| Extraordinary Item | **—** | .04 |
| Net Earnings | **1.32** | 1.30 |
| Earnings Per Share—Assuming full dilution | | |
| Before Extraordinary Item | **1.25** | 1.15 |
| Extraordinary Item | **—** | .03 |
| Net Earnings | **1.25** | 1.18 |
| Cash Dividends | **3,491,311** | 2,423,341 |
| **AT YEAR-END** | | |
| Net Working Capital | **107,911,601** | 83,689,139 |
| Current Ratio | **2.14 to 1** | 2.08 to 1 |
| Long-Term Debt | **82,042,893** | 95,191,759 |
| Shareholders' Equity | **194,202,227** | 137,132,383 |
| Book Value Per Share* | **12.57** | 10.03 |
| Annual Dividend Rate Per Share | **.24** | .20 |
| Average Shares Outstanding | **15,446,247** | 13,678,215 |
| Number of Shareholders | **9,418** | 8,866 |
| Number of Employees | **24,100** | 21,500 |

**Based on average number of shares outstanding during the period after adjusting for all stock dividends and splits.*

# TO OUR SHAREHOLDERS:

We are extremely pleased with Southland's excellent gains in both earnings and revenues for 1972. The increases are especially gratifying as severe pressures on margins — from persistently spiraling costs of doing business coupled with intensified competition, consumer resistance to price increases, and constraints and complexities of Phase II — created a most difficult year for the retail food industry. In fact, some grocery chains reported reduced profits or even losses.

Southland's ability to cope successfully with 1972's unusual challenges produced a gain in net earnings before extraordinary items of 17.7% on a 13.2% rise in consolidated revenues. These results confirm that we are progressing toward our next goal of $2 billion a year in revenues at a challenging yet realistic pace.

The increases resulted from internal growth, including sustained gains in sales per store of our older 7-ELEVEN units together with a net increase of 343 7-ELEVEN stores opened during the year. Southland's dairies, grocery stores, candy shops, and other operations — each of which continues to grow at its own rate — also contributed to the higher revenues and earnings. In addition, our recent investments in two United Kingdom retailing operations earned 3 cents a share.

We fully endorse the President's economic stabilization program and believe that under Phase III stabilization of the economy on a less inflationary basis will continue. Phase III's effect on Southland's 1973 operations, which are subject to mandatory controls, should be similar to Phase II's, although the regulations are still being revised. However, the years that may be used in computing the allowable profit-margin guideline have been increased, and it also is now less difficult to recover certain supplier and government-mandated cost increases.

## MARGINS & COMPETITION

The retail food industry, one of the nation's most competitive businesses, in 1972 experienced the most intensely competitive conditions in some time. Pressures on margins were compounded when deep discounting of prices was selected as the primary competitive tactic of supermarket chains attempting to increase or retain volume. In addition, although temporary and directed primarily at other supermarkets, extended shopping hours and Sunday operation of grocery stores formerly closed on that day were disruptive in certain markets. However, the effect on nearby convenience stores diminishes with time, and currently it appears that some supermarket chains are reevaluating or discarding these tactics.

Intense competition certainly is not new or novel to Southland. The great majority of our stores operate in close proximity to other retail outlets which have attained some consumer acceptance and carry product lines similar in some respects to the convenience store's — although never offering as much convenience. We are confident that Southland, having demonstrated competitive competence for 45 years, can perpetuate its leadership in serving the consumer's demand for convenience and service.

## MANAGEMENT & CORPORATE OFFICE

Developing the management structure — a key to retaining the competitive edge — to direct and control a business with Southland's growth record and objectives, is a constant challenge. We are continually reviewing and refining our structure to remain ahead of the requirements dictated by growth. For example, we instituted a broad, multi-phase reorganization some five years prior to becoming a billion-dollar company. During 1972, we took steps to strengthen the structure and improve coordination of the management activities of our widespread stores, dairies, and other operations — both on the regional and divisional levels as well as in the Corporate Office. Three Executive Vice President positions were established, and Jere W. Thompson, Joseph S. Hardin, and Walton Grayson, III, were elected to these new offices.

We are now in the final year of a three-year program to enlarge and modernize the Corporate Office. In December, we occupied the new 11-story tower of the three-building complex and currently are experiencing the advantages of all Corporate Office employees and activities being in a single convenient location.

In 1971, the one-story North Wing was remodeled to architecturally complement the South Wing, which was the General Office for 25 years. The South Wing now is being remodeled and will be reoccupied later this year. When completed in late 1973, the 200,000 square feet of floor space in the 10-acre complex should adequately accommodate the requirements of the Corporate Office Departments for the next several years.

## CAPITAL INVESTMENT & STORE EXPANSION

In keeping with our philosophy of growth, we continued to reinvest a major portion of Southland's earnings in expansion and improvement of the stores, dairies, and other operations. Development of a regional distribution network represented, in the second year of a three-year program, a significant percentage of 1972 capital investments. Each of the three highly automated Distribution Centers — tailored to serve the unique requirements of convenience stores through computerized control of merchandise flow — contains refrigerated as well as dry warehouse facilities. Southland's first Regional Distribution Center in Orlando earned an excellent return on investment in its first full year of operation. Con-

struction of the other two centers commenced during the year, and both are scheduled for completion during 1973.

Store expansion remains the major element of our reinvestment program, and during 1972 Southland opened 453 new stores. Construction of new convenience stores is related closely to homebuilding, and the number of 1972 housing starts increased rapidly to a record 2.4 million, although the rate has recently declined. Thousands of already started new homes will be completed and occupied this year, and Southland has planned its store expansion program to include this growth opportunity.

## CONTINUING GROWTH

Tomorrow's 7-ELEVEN store will incorporate many merchandising innovations in product mix and promotional methods as well as advancements in equipment and construction techniques — and will appear as different from today's stores as the 7-ELEVEN of the early '70s does from the ice dock of 45 years ago.

The total number of convenience stores is expected to increase dramatically over the next several years, and the convenience store share of total U. S. grocery store volume will grow larger through gains in sales per store as well as through additional units.

We remain convinced that Southland's management and business philosophy will enable us to retain our tradition of leadership in the rapidly growing convenience store business. We are planning and structuring our human and economic resources to achieve this goal. Continuous reinforcement of management and reinvestment of capital in growth-oriented programs, along with our United Kingdom investments and the strengthening of Southland's financial position, have provided the structure for growth beyond our next goal of $2 billion in annual revenues.

Southland's achievements can be attributed largely to the dedication of our employees and franchise owners, the cooperation of thousands of suppliers, the continuing goodwill of millions of customers, and the support of the shareholders. For all the loyalty and support that Southland has received, we express our gratitude.

Very truly yours,

MARCH 15, 1973

John P. Thompson
CHAIRMAN

J. E. Hadfield
PRESIDENT

Chairman, above, and President.

# OFFICERS

*FROM LEFT TO RIGHT*

JERE W. THOMPSON
Executive Vice President

WALTON GRAYSON, III
Executive Vice President,
Administration and Services

JOSEPH S. HARDIN
Executive Vice President,
Planning and Special Operations

M. T. COCHRAN, JR.
Vice President,
Dairy Operations

VAUGHN R. HEADY
Vice President,
Store Operations Manager

*FROM LEFT TO RIGHT*

FORREST STOUT
Vice President,
Eastern Stores Region

CLIFFORD W. WHEELER
Vice President,
New Areas

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Vice President,
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R. G. SMITH
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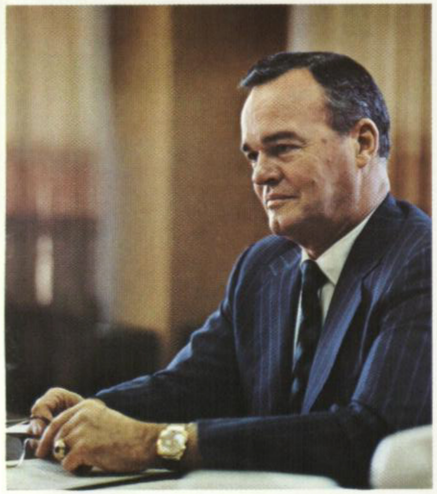
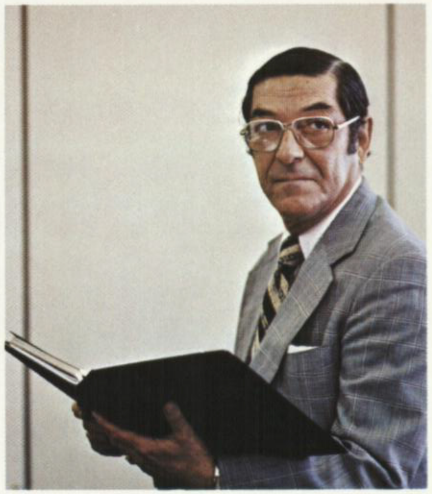
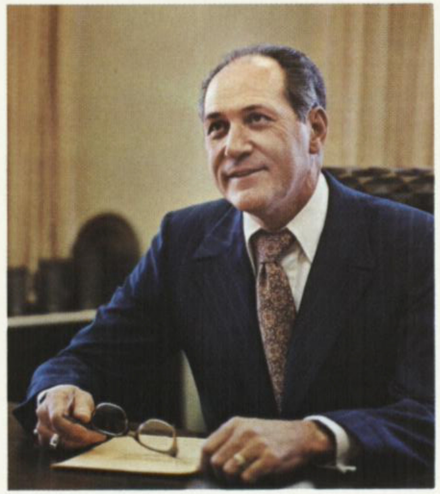
Controller

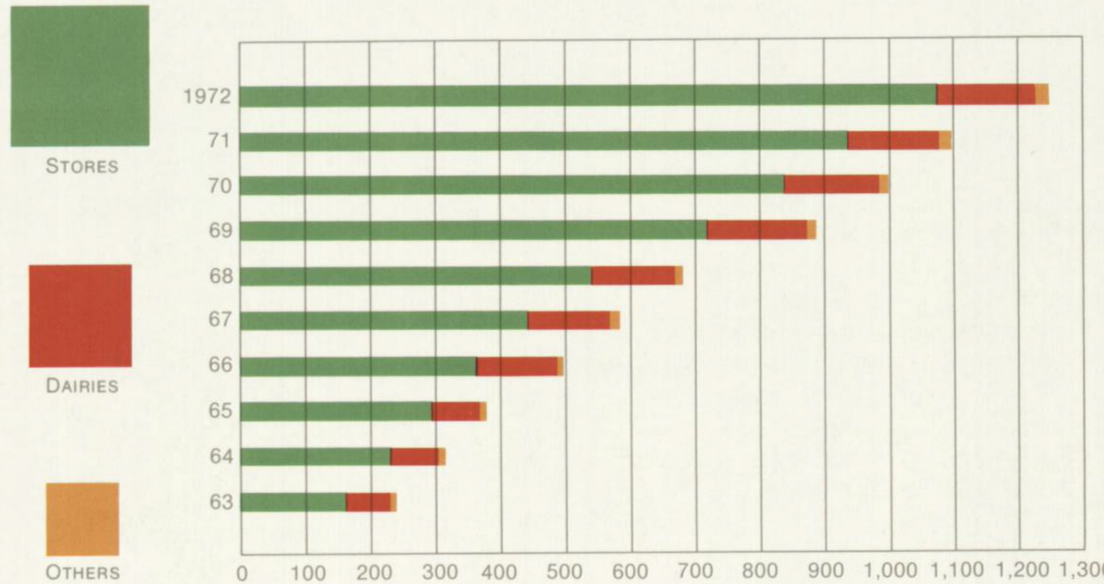





# FINANCIAL REPORT

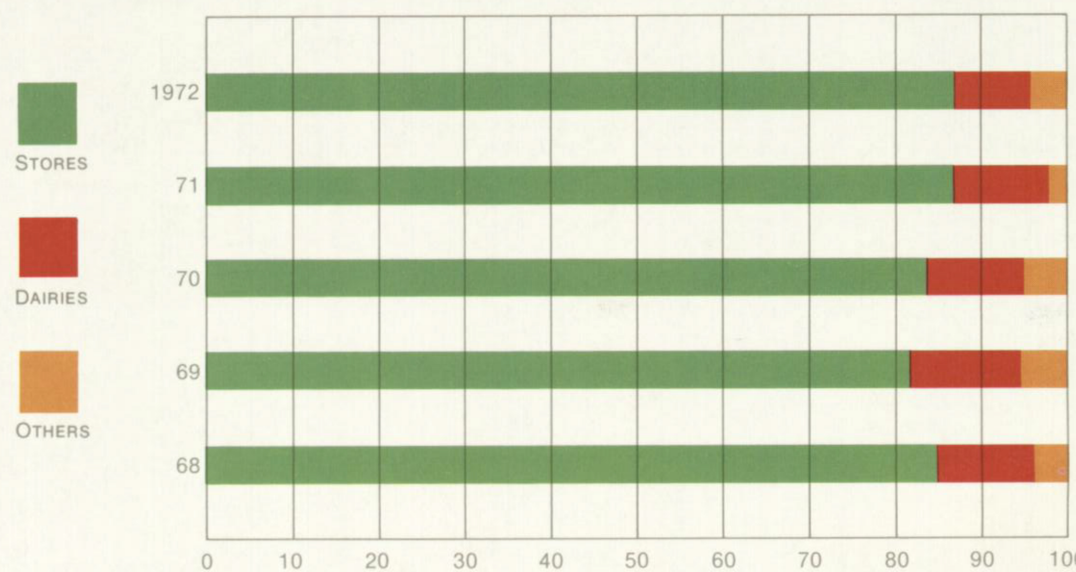
# REVENUES

In a year of widespread unsettled market conditions in the retail food industry, Southland not only maintained its consistent long-term growth trend but also achieved the objectives set at the beginning of 1972 and recorded all-time highs in both revenues and earnings. Total revenues were $1,228,350,265, up 13.2% over last year's revenues of $1,085,107,334. Internal growth in all operations contributed this excellent increase. Average sales volume in our convenience food stores continued to show substantial gains with total store revenues up 14.1% over last year. Revenues from dairy operations were up 6.7%, and other operations showed an increase of 14.5% over 1971.

TOTAL REVENUES • In Millions




PERCENT CONTRIBUTION OPERATING PROFIT • Major Lines of Business

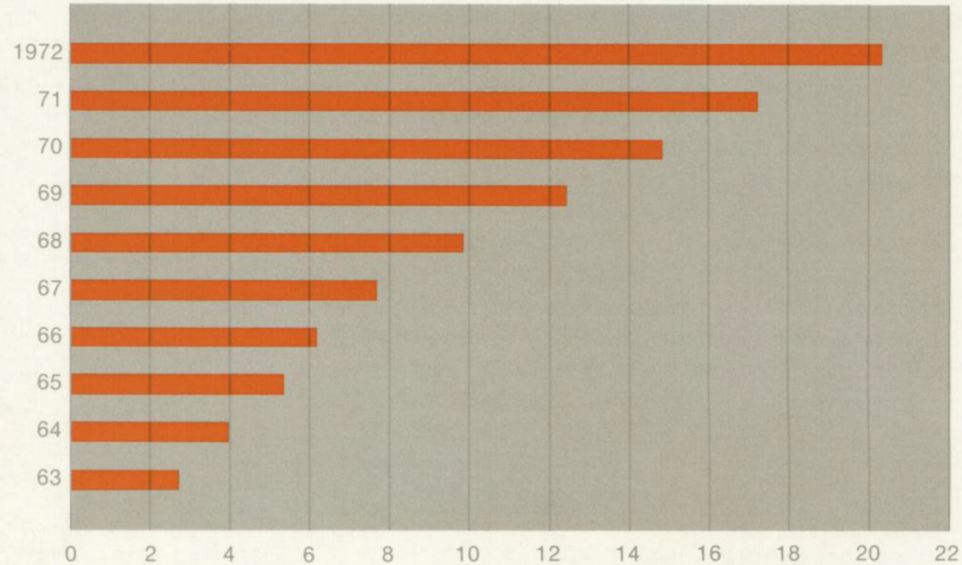


# NET EARNINGS

Consolidated net earnings for the year increased 17.7% to $20,365,987, as compared with 1971 earnings of $17,299,759 before an extraordinary item of income. These significant results were most gratifying in view of the intense competition in certain market areas and the complexities and restrictions of operating under Phase II. Although store volume and margins in some market areas were affected slightly by the moves of certain supermarket chains to discount pricing and extension of store hours, including Sunday openings, store operations contributed 87% of total corporate operating profits while dairy and other operations contributed 13%.

Net return on revenues for the year was 1.66%, up from 1.59% for last year.

NET EARNINGS (After Tax) (Before Extraordinary Items) • In Millions

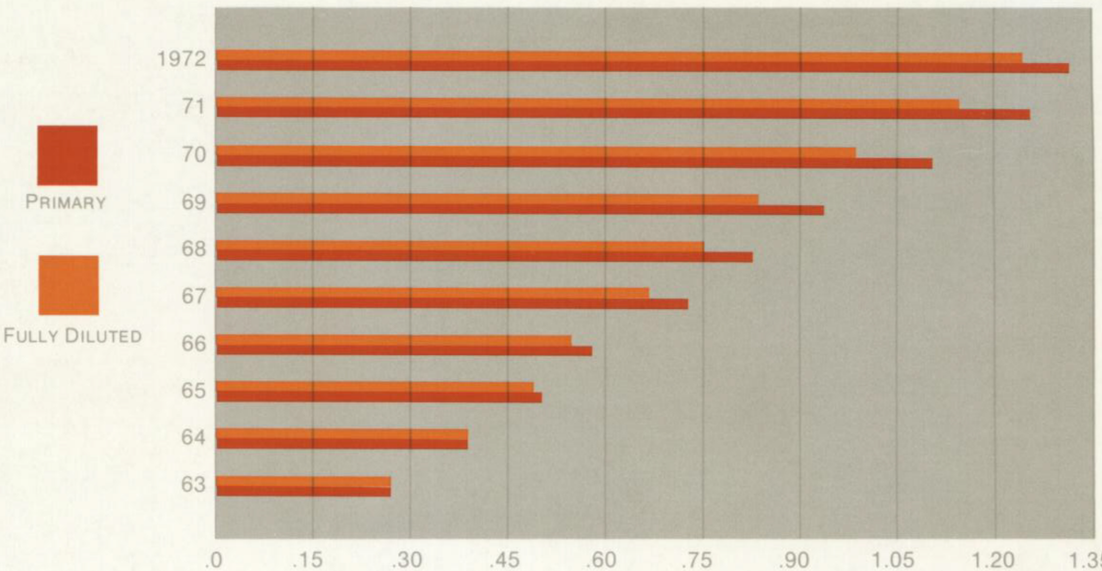



# EARNINGS PER SHARE

On a per share basis, assuming full dilution, earnings for the year were $1.25, up 8.7% as compared with 1971 earnings of $1.15 before an extraordinary item of income of 3 cents a share. Diluted earnings per share were computed on the basis of 17,022,185 average shares, an increase of 2.2% over the 16,650,755 average shares for a year ago.

Primary earnings per share for 1972 were $1.32, compared with last year's earnings of $1.26 before 4 cents a share from an extraordinary item of income. Earnings were computed on the basis of 15,446,247 average shares outstanding, an increase of 12.9% over the 13,678,215 average shares outstanding for 1971.

EARNINGS PER SHARE • In Dollars



# FOREIGN INVESTMENTS

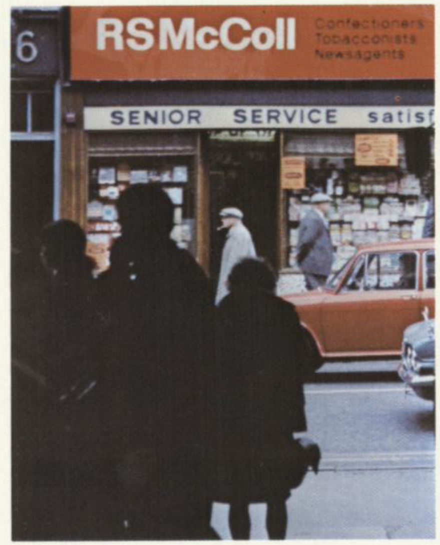
During the past two years, Southland has made substantial investments in the retail food industry in the United Kingdom. On September 30, 1971, the Company purchased, for approximately $8.1 million, a 50% interest from Cavenham Limited in approximately 350 small retail stores, which specialize in confectionery, tobacco, newspapers and magazines. During 1973, a maximum additional investment of $1.6 million may be required if these operations meet certain profit objectives through March 31, 1973. These interests were reorganized into Southland-Cavenham Limited, of which 50% of the voting stock is owned by Southland. Sales of these stores for the period ended October 14, 1972 were $43.2 million and are not included in Southland's total revenues for the year.

Early in 1972, Southland's United Kingdom investments were increased through the purchase of 50% of the voting stock in Cavenham-Southland Limited, which was formed to acquire the controlling interests in Wright's Biscuits Ltd. and Moores Stores Ltd. Wright's and Moores operate more than 775 retail grocery outlets in England, Scotland, and Wales under various trade names. Cavenham-Southland owns approximately 88% of Wright's and, directly or indirectly through its ownership of Wright's, controls approximately 98% of Moores. At year end, Southland's investment in Cavenham-Southland Limited was $10.4 million and, if the additional outstanding interests in Wright's and Moores are acquired by Cavenham-Southland, Southland would be required to make an additional investment of approximately $700,000. Sales for the period April 1, 1972 through October 14, 1972 for these interests were $75.8 million and are not included in Southland's total revenues for the year.

During the year, Southland increased its investment in Mexico, which was initiated in late 1970, through opening the second and third ***SUPER SIETE*** convenience stores in Monterrey.

For the fiscal year, Southland's equity in earnings of foreign affiliates, stated net of interest on Eurodollar borrowings used to make the investments, amortization of the excess of the investments over the net assets acquired, and foreign and U.S. income taxes, was $419,116, equal to 3 cents a share.

Sales and earnings were translated to U.S. dollars at the average rates of exchange during the reported periods.




In the United Kingdom, McColl and other CTN (confectionery, tobacco, newsstand) shops and Wright's and Moores grocery stores are known for their convenient locations.

# CAPITAL INVESTMENTS

Funds used for capital investments during 1972 for property, plant and equipment amounted to $32,064,418, compared with $31,494,017 in 1971. Major outlays included $24.6 million or 77% for store operations, $3.3 million or 10% for dairy operations, and $4.2 million or 13% invested in other operations. In addition, $11,196,961 was used in making investments in affiliates and $10,037,147 was temporarily invested in land and buildings to be mortgaged or to be sold to outsiders for cash and leased back.

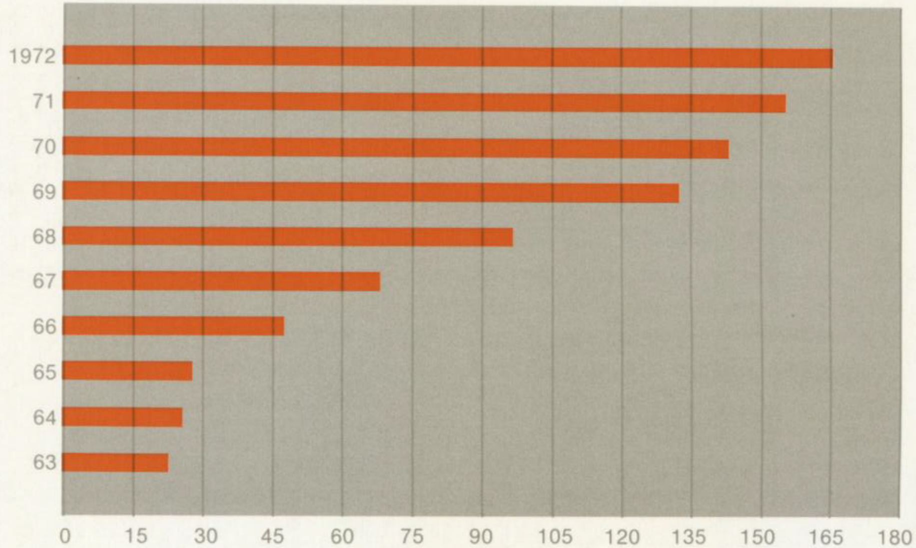
It is the Company's policy to provide the interim financing for capital investments through internally generated funds and to permanently finance its capital outlays by a combination of sale and lease back transactions, mortgage and lease financing, cash flow, and the issuance of debt securities. Mortgage debt is the preferred financing method for real estate, but lease transactions and issuance of other debt securities provide flexible sources of funds at the most desirable interest rates to supplement cash flow from operations.

At year end, the Company's investment in property, plant and equipment, less accumulated depreciation, was $165.3 million, compared with $155.7 million in 1971.

Depreciation and amortization during the year amounted to $17,862,325 compared with $16,246,787 for 1971.

Cash flow provided by operations during the past year was $39.4 million, up 13.4% over 1971, equal to $2.55 per share.

PROPERTY, PLANT AND EQUIPMENT (NET) • In Millions



# CAPITALIZATION AND FINANCIAL POSITION

The Company called for redemption on April 7, 1972 all of its outstanding 5½% Convertible Subordinated Debentures due March 15, 1989. Virtually all of the debentures were converted into common stock, resulting in the issuance of 1,654,547 new shares during 1972.

On July 13, 1972, the Company sold overseas in a public Eurodollar offering, limited to foreign investors, $20,575,000 of 5% Convertible Subordinated Debentures due 1987. On November 15, 1972, the Company, under delayed delivery contracts, issued an additional $9,425,000 of the Debentures. The Debentures, which are listed on the Luxembourg Stock Exchange, are convertible on or after February 1, 1973 at the rate of 23.94 shares of common stock for each $1,000 principal amount.

Also, during the year, holders of the Company's privately placed 5¾% Convertible Subordinated Notes due 1987 converted $750,000 of the Notes into 50,812 shares of common stock.

These actions, together with 67,071 shares of common stock issued as a result of the exercise of outstanding stock options and the issuance of 459,207 shares in payment of a 3% stock dividend, resulted in 15,917,385 shares outstanding at December 31, 1972, compared with 13,685,704 shares the year before, an increase of 16.3%.

At December 31, 1972, there were 1,747,709 shares reserved for the conversion of notes and debentures and for issuance under the employees' stock option plan.

During 1971, the Company made arrangements to borrow up to $50 million from The Chase Manhattan Bank (National Association) and First National Bank in Dallas. Under the agreement, Southland could borrow up to $18 million in Eurodollars and $32 million in domestic funds. During 1971 and 1972, the Company borrowed $17.1 million in Eurodollars, which was used in making investments in the United Kingdom. These loans were repaid during 1972 and the outstanding Eurodollar commitment with the banks has been cancelled. The remaining $32 million is available on a revolving credit basis until July 1, 1973. As of December 31, 1972, there were no loans outstanding under this commitment.

Total long-term debt amounted to $82,042,893 at December 31, 1972, a decrease of 13.8% from the $95,191,759 outstanding at December 31, 1971.

At year-end, net working capital was $107,911,601, compared with $83,689,139 the year before, and the current ratio rose to 2.14 to 1 from 2.08 to 1. There was no short-term bank debt outstanding at year end.

As a result of the changes in financial structure made during the year, the Company is in an excellent financial position to accomplish its expansion plans over the next few years.

# SHAREHOLDERS' EQUITY

Shareholders' equity increased $57,069,844 during the year, from $137,132,383 to $194,202,227, principally as a result of the conversion of the 5½% Convertible Subordinated Debentures due March 15, 1989, and the increase in retained earnings for the year. Shareholders' equity per common share at year end, based on the average number of shares outstanding, rose from $10.03 in 1971 to $12.57 in 1972. The return on beginning shareholders' investment for the year was 14.9% compared with 15.3% for 1971. There were 9,418 shareholders of record at year end.

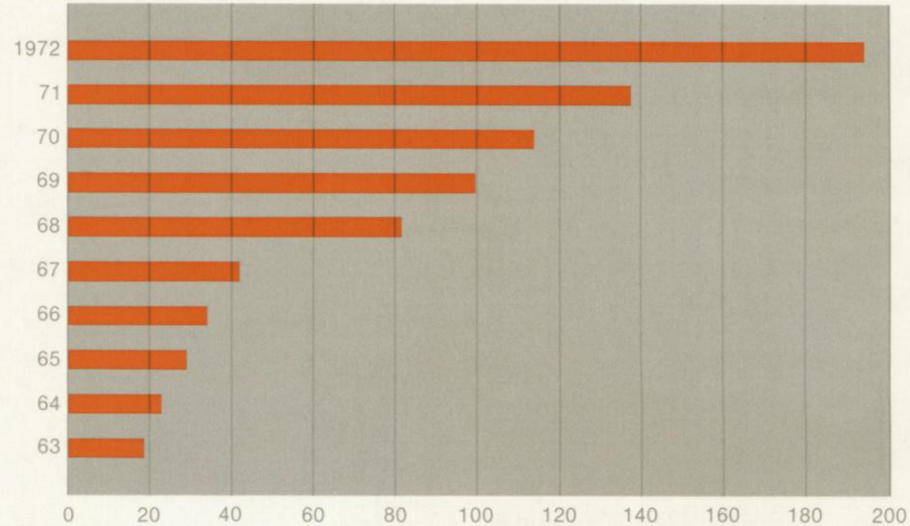
# DIVIDENDS

The annual cash dividend rate on the Company's common stock was increased 20% in early 1972 from 20 cents to 24 cents per share. The new quarterly rate of 6 cents per share, paid beginning June 20, 1972, is within the guidelines suggested by the Committee on Interest and Dividends. Total cash dividends paid during the year were $3,491,311 compared with $2,423,341 for 1971. In addition, a 3% stock dividend of 459,207 shares was paid in November, 1972. The Company has paid cash dividends each year since 1957 and has distributed stock dividends each year (except 1964) since 1958, including a 4.2-for-1 stock split in 1963 and 3-for-2 stock splits in 1968 and 1971.

# PROFIT SHARING AND PENSION PLANS

The Company and its subsidiaries contribute to a profit sharing plan and union pension plans which cover substantially all employees. All eligible employees have the option of joining the Company's voluntary contributory profit sharing plan established in 1949. Contributions to this fully funded trustee-administered plan are based on the Company's pre-tax earnings. The Company also makes contributions to various union administered pension plans. The Company has no unfunded pension costs.

SHAREHOLDER'S EQUITY • In Millions



# STATEMENT OF CONSOLIDATED EARNINGS

**The Southland Corporation and Subsidiaries**

| | Year ended December 31 1972 | 1971 |
|---|---|---|
| **Revenues:** | | |
| Net sales (including franchised stores) | **$1,219,885,897** | $1,079,768,102 |
| Other income | **8,464,368** | 5,339,232 |
| | **1,228,350,265** | 1,085,107,334 |
| **Cost of Sales and Expenses** (Note 13): | | |
| Cost of sales and expenses exclusive of items listed below | **1,108,775,683** | 976,215,363 |
| General and administrative expenses | **11,105,002** | 9,492,513 |
| Property and equipment rentals (Note 9) | **43,024,037** | 39,047,928 |
| Depreciation (Notes 1 and 5) | **17,862,325** | 16,246,787 |
| Interest expense | **4,078,847** | 5,855,377 |
| Contributions to Employees' Savings, Profit Sharing and Pension Plan | **4,161,000** | 3,691,537 |
| | **1,189,006,894** | 1,050,549,505 |
| **Earnings Before Income Taxes, Equity in Earnings of Affiliates and Extraordinary item** | **39,343,371** | 34,557,829 |
| **Income Taxes** (Note 10) | **19,396,500** | 17,299,000 |
| **Earnings Before Equity in Earnings of Affiliates and Extraordinary Item** | **19,946,871** | 17,258,829 |
| **Equity in Earnings of Affiliates** (Note 2) | **419,116** | 40,930 |
| **Earnings Before Extraordinary Item** | **20,365,987** | 17,299,759 |
| **Extraordinary Item**—net of income taxes of $219,000 (Note 11) | **—** | 496,836 |
| **Net Earnings** | **$ 20,365,987** | $ 17,796,595 |
| **Primary Earnings Per Share** (Note 12): | | |
| Before extraordinary item | **$ 1.32** | $ 1.26 |
| Extraordinary item | **—** | .04 |
| Net earnings | **$ 1.32** | $ 1.30 |
| **Earnings Per Share**—Assuming full dilution (Note 12): | | |
| Before extraordinary item | **$ 1.25** | $ 1.15 |
| Extraordinary item | **—** | .03 |
| Net earnings | **$ 1.25** | $ 1.18 |

*See notes to financial statements.*

# CONSOLIDATED BALANCE SHEET

**The Southland Corporation and Subsidiaries**

**Assets**

| | December 31 1972 | December 31 1971 |
|---|---|---|
| **Current Assets:** | | |
| Cash | **$ 33,120,375** | $ 38,563,851 |
| Cash investments | **26,193,151** | — |
| Accounts and notes receivable (Note 3) | **46,024,739** | 39,366,520 |
| Inventories, at the lower of cost or market | **53,747,359** | 49,076,601 |
| Deposits and prepaid expense | **8,099,136** | 8,649,379 |
| Investment in property (Note 4) | **35,598,687** | 25,561,540 |
| **Total Current Assets** | **202,783,447** | 161,217,891 |
| **Investments in Affiliates** (Note 2) | **19,568,903** | 8,371,942 |
| **Other Assets** | **1,729,878** | 1,200,133 |
| **Property, Plant and Equipment** (Note 5) | **165,270,306** | 155,688,095 |
| | **$389,352,534** | $326,478,061 |

*See notes to financial statements.*

## Liabilities and Shareholders' Equity

| | December 31 1972 | December 31 1971 |
|---|---|---|
| **Current Liabilities:** | | |
| Long-term debt due within one year | **$ 6,757,630** | $ 6,718,133 |
| Accounts payable and accrued expense | **86,313,975** | 67,302,432 |
| Income taxes | **1,800,241** | 3,508,187 |
| **Total Current Liabilities** | **94,871,846** | 77,528,752 |
| **Deferred Credits** (Note 7) | **15,620,385** | 14,437,289 |
| **Reserves for Self Insurance** | **2,615,183** | 2,187,878 |
| **Long-Term Debt, due after one year** (Note 6) | **82,042,893** | 95,191,759 |
| **Contingencies and Commitments** (Note 9) | | |
| **Shareholders' Equity** (Notes 6 and 8): | | |
| Common stock, $.01 par value, authorized 40,000,000 shares, issued and outstanding 15,917,385 and 13,685,704 shares | **159,174** | 136,857 |
| Additional paid-in capital | **153,464,415** | 99,149,745 |
| Earnings retained in the business | **40,578,638** | 37,845,781 |
| | **194,202,227** | 137,132,383 |
| | **$389,352,534** | $326,478,061 |

*See notes to financial statements.*

# STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

**The Southland Corporation and Subsidiaries**

| | Year ended December 31 | |
|---|---|---|
| | **1972** | **1971** |
| **Common Stock:** | | |
| The Southland Corporation | **$ 136,857** | $ 81,162 |
| Shares issued in poolings | **—** | 5,325 |
| Balance January 1, restated for poolings | **136,857** | 86,487 |
| Exercise of stock options | **671** | 750 |
| 3% Stock dividend | **4,592** | 3,939 |
| Conversion of notes and debentures | **17,054** | 4,769 |
| Purchase acquisition | **—** | 142 |
| Stock split—3-for-2 | **—** | 40,770 |
| Balance December 31 | **159,174** | 136,857 |
| **Additional Paid-in Capital:** | | |
| The Southland Corporation | **99,149,745** | 78,381,952 |
| Pooled companies | **—** | 289,266 |
| Balance January 1, restated for poolings | **99,149,745** | 78,671,218 |
| Exercise of stock options | **786,363** | 1,077,480 |
| 3% Stock dividend | **14,001,161** | 11,840,486 |
| Conversion of notes and debentures | **39,527,146** | 7,183,224 |
| Purchase acquisition | **—** | 418,107 |
| Stock split—3-for-2 | **—** | (40,770) |
| Balance December 31 | **153,464,415** | 99,149,745 |
| **Earnings Retained in the Business:** | | |
| The Southland Corporation | **37,845,781** | 30,576,349 |
| Pooled companies | **—** | 3,950,978 |
| Balance January 1, restated for poolings | **37,845,781** | 34,527,327 |
| Net earnings for the year | **20,365,987** | 17,796,595 |
| | **58,211,768** | 52,323,922 |
| Less: | | |
| Cash dividends | **3,491,311** | 2,423,341 |
| Cash paid in lieu of fractional shares | **136,066** | 210,374 |
| 3% Stock dividend | **14,005,753** | 11,844,426 |
| | **17,633,130** | 14,478,141 |
| Balance December 31 | **40,578,638** | 37,845,781 |
| **Total Shareholders' Equity** (Notes 6 and 8) | **$194,202,227** | $137,132,383 |

*See notes to financial statements.*

# STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

**The Southland Corporation and Subsidiaries**

| | Year ended December 31 1972 | 1971 |
|---|---|---|
| **Source of Funds:** | | |
| From operations: | | |
| Net earnings before extraordinary item | **$ 20,365,987** | $ 17,299,759 |
| Depreciation | **17,862,325** | 16,246,787 |
| Deferred income taxes and other credits | **1,183,096** | 1,214,478 |
| Funds provided by operations | **39,411,408** | 34,761,024 |
| Extraordinary item | **—** | 496,836 |
| 5% Convertible subordinated debentures | **30,000,000** | — |
| Long-term debt | **7,782,559** | 11,398,085 |
| Conversion of notes and debentures | **39,544,200** | 7,187,993 |
| Exercise of stock options | **787,034** | 1,078,230 |
| Value of shares issued in purchase acquisition | **—** | 418,249 |
| Increase in accounts payable, accruals and income tax | **17,303,597** | 2,576,062 |
| Property retirements and sales | **4,619,882** | 3,676,514 |
| Decrease in cash and cash investments | **—** | 7,144,275 |
| Other | **977,548** | — |
| | **$140,426,228** | $ 68,737,268 |
| **Application of Funds:** | | |
| Payment of long-term debt | **$ 11,347,728** | $ 6,954,314 |
| Conversion of notes and debentures | **39,544,200** | 7,187,993 |
| Cash dividends | **3,491,311** | 2,423,341 |
| Cash paid in lieu of fractional shares | **136,066** | 210,374 |
| Investments in affiliates | **11,196,961** | 8,273,942 |
| Property, plant and equipment | **32,064,418** | 31,494,017 |
| Increase in cash and cash investments | **20,749,675** | — |
| Increase in accounts and notes receivable | **6,658,219** | 2,900,307 |
| Increase in inventories | **4,670,758** | 3,729,842 |
| Increase in investment in property | **10,037,147** | 4,605,838 |
| Net assets of business purchased | **—** | 418,249 |
| Other | **529,745** | 539,051 |
| | **$140,426,228** | $ 68,737,268 |

*See notes to financial statements.*

# NOTES TO FINANCIAL STATEMENTS

**THE SOUTHLAND CORPORATION AND SUBSIDIARIES**

**YEARS ENDED DECEMBER 31, 1972 AND 1971**

## NOTE 1—ACCOUNTING POLICIES:

### PRINCIPLES OF CONSOLIDATION:

The financial statements include the assets, liabilities, sales, and costs and expenses of all subsidiaries. Operations of businesses acquired in transactions accounted for as purchases have been included in consolidated earnings since acquisition, while operations of businesses acquired in transactions accounted for as poolings of interest have been included in consolidated earnings for all periods. Intercompany transactions, including those with pooled companies prior to acquisition, have been eliminated.

Investments in United Kingdom and Mexico affiliates (50% owned) are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition.

Pak-A-Sak Service Stores, Inc., Hudgins Truck Rental of Houston, Inc., Hudgins Truck Rental, Inc., Hudgins Truck Rental of Arlington, Inc., and Hudgins Cartage Company, Inc. were acquired in 1971 in exchange for 564,929 shares of common stock in transactions accounted for as poolings of interest. These companies conduct convenience store or truck leasing operations. Operations for the year 1971 include revenues of $21,888,123 and net earnings of $450,222 applicable to these companies for the portions of the year prior to acquisition.

### FOREIGN OPERATIONS:

Operations and earnings of foreign subsidiaries and affiliates have been translated to U.S. dollars at the average rates of exchange during the reported periods.

### PROPERTY, PLANT AND EQUIPMENT:

Provision for depreciation has been made at annual rates based upon the estimated useful lives of assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining lives of the leases or the estimated useful lives of such assets, whichever is the shorter. Maintenance and repairs are charged to income, whereas renewals and betterments are capitalized.

## NOTE 2—INVESTMENTS IN FOREIGN AFFILIATES:

On September 30, 1971, the Company acquired a 50% interest in the retail operations of Cavenham Limited in the United Kingdom for approximately $8,146,000 subject to a 20% adjustment upward or downward based upon operating profits through March 31, 1973. These interests were reorganized into Southland-Cavenham Limited, which operates approximately 350 small retail stores located in England and Scotland.

In April, 1972, the Company acquired a 50% interest in Cavenham-Southland Limited for approximately $10,350,000. Cavenham-Southland Limited had been formed to acquire controlling interest in Wright's Biscuits Ltd. (Wright's) and Moores Stores Ltd. (Moores). The Wright's and Moores retail grocery groups include approximately 775 retail grocery outlets operating in England, Scotland, and Wales.

Equity in earnings in United Kingdom affiliates is included from the effective dates of acquisition. Since the fiscal year for determining earnings of the affiliates ends in October, the operations of Southland-

Cavenham have been included in 1971 for approximately one month and in 1972 for the full year while operations of Cavenham-Southland have been included in 1972 for approximately six and one-half months. Equity in such earnings is stated net of interest on Eurodollar borrowings used to make the investments, amortization of the excess of the investments over the net assets acquired (straight-line over 40 years), foreign income taxes and United States federal income taxes which will apply to dividends when paid to Southland.

**NOTE 3—ACCOUNTS AND NOTES RECEIVABLE:**

| | 1972 | 1971 |
|---|---|---|
| Trade | **$26,965,097** | $25,139,185 |
| Franchisee | **20,602,024** | 16,037,069 |
| | **47,567,121** | 41,176,254 |
| Less allowance for doubtful accounts | **1,542,382** | 1,809,734 |
| | **$46,024,739** | $39,366,520 |

**NOTE 4—INVESTMENT IN PROPERTY:**

Investment in property includes land and buildings to be mortgaged or to be sold to outsiders for cash and leased back. Current working funds are used in the construction of new facilities and the Company expects that cash will be realized within a 12-month period for these assets.

**NOTE 5—PROPERTY, PLANT AND EQUIPMENT:**

| Cost: | 1972 | 1971 |
|---|---|---|
| Land | **$ 19,380,309** | $ 18,032,086 |
| Buildings and leaseholds | **91,618,551** | 75,068,974 |
| Machinery and equipment | **117,995,871** | 110,544,018 |
| Vehicles | **15,038,124** | 11,732,278 |
| Construction in process | **2,771,593** | 7,618,361 |
| | **246,804,448** | 222,995,717 |
| Less accumulated depreciation | **81,534,142** | 67,307,622 |
| | **$165,270,306** | $155,688,095 |

Approximately 24% of the net carrying value of property, plant and equipment is mortgaged.

## NOTE 6—LONG-TERM DEBT:

At December 31, 1972, long-term debt and amounts due within one year were as follows:

| | Amount outstanding | Current portion | Balance included in long-term debt |
|---|---|---|---|
| 5¾% Promissory notes due 1976 | $10,312,500 | $ 3,437,500 | $ 6,875,000 |
| 4%–9% Real estate and equipment notes (mature 1973 to 1995) | 37,938,023 | 3,320,130 | 34,617,893 |
| 5% Convertible subordinated notes due 1984 | 6,000,000 | — | 6,000,000 |
| 5¾% Convertible subordinated notes due 1987 | 4,550,000 | — | 4,550,000 |
| 5% Convertible subordinated debentures due 1987 | 30,000,000 | — | 30,000,000 |
| | $88,800,523 | $ 6,757,630 | $82,042,893 |

The 5% and 5¾% convertible notes and the 5% convertible debentures may, at the option of the holders, be converted at any time into common stock of the Company at the ratios, respectively, 85.55, 69.78, and 23.94 shares of stock for each $1,000 of principal. As to the notes, these ratios decrease to 75.29 and 66.33 shares on January 1, 1975 and December 1, 1977, respectively. At December 31, 1972, there were 1,548,999 shares of common stock reserved for the conversion of the notes and debentures. Principal payments on the notes are due annually beginning in 1975 and 1978 respectively, in amounts equal to 10% of the aggregate principal amount outstanding one year prior to the date of the first required payment.

Under a revolving credit facility with certain banks the Company may borrow, repay and reborrow up to $32,000,000 at an interest rate equal to ¼% above the prime rate. On or before July 2, 1973, the banks have agreed to make a term loan to Southland in an amount up to $32,000,000. No amounts were borrowed under this facility at December 31, 1972, nor does the Company anticipate any borrowings thereunder to the date it terminates on July 2, 1973.

At December 31, 1972, the aggregate amount of long-term debt maturities is as follows for the years ended December 31: 1973—$6,757,630; 1974—$6,513,087; 1975—$6,809,419; 1976—$3,260,273; 1977—$3,278,497.

The agreements under which the promissory notes and the convertible notes were issued place certain restrictions on the payment of cash dividends. Under the most restrictive of these provisions, retained earnings totaling $38,400,000 at December 31, 1972, were not so restricted.

Other provisions of the agreements include requirements as to maintenance of working capital and net worth. The Company has complied with these requirements.

**NOTE 7—DEFERRED CREDITS:**

For financial reporting purposes, investment credits relating to leased and purchased equipment, which are allowed as credits against federal income taxes, are taken into income ratably over the useful life of the assets or the term of the leases, respectively.

Deferred federal income taxes result from the use of accelerated depreciation methods for tax purposes.

| | Investment credit | Deferred federal income taxes | Other | Total |
|---|---|---|---|---|
| Balance January 1, 1971 | $ 3,714,003 | $ 8,635,563 | $ 873,245 | $13,222,811 |
| Provided for the year | 292,173 | 1,499,177 | 143,672 | 1,935,022 |
| Taken into income | (706,894) | — | (13,650) | (720,544) |
| Balance December 31, 1971 | 3,299,282 | 10,134,740 | 1,003,267 | 14,437,289 |
| Provided for the year | 1,681,000 | 354,000 | 118,600 | 2,153,600 |
| Taken into income | (929,170) | — | (41,334) | (970,504) |
| Balance December 31, 1972 | $ 4,051,112 | $10,488,740 | $ 1,080,533 | $15,620,385 |

**NOTE 8—STOCK OPTIONS:**

At December 31, 1972, options for 165,575 shares of the Company's stock at prices ranging from $5.16 to $34.47, were outstanding, of which 73,006 shares were exercisable. During 1972, 68,964 shares were issued upon exercise of options at prices ranging from $5.05 to $33.94; options were granted for 45,234 shares at a price of $34.47; and options for 6,123 shares expired or were cancelled. During 1971, 101,261 shares were issued upon exercise of options at prices ranging from $2.52 to $30.17; options were granted for 38,640 shares at a price of $30.16 and options for 8,998 shares expired or were cancelled.

An additional 33,135 shares are available for future grants under the employees' stock option plan.

The above information has been adjusted for stock dividends and stock splits.

**NOTE 9—LEASE COMMITMENTS:**

Certain of the property and equipment used in the Company's business is leased. Minimum rental payments for 1973 under lease agreements in effect as of December 31, 1972, exclusive of taxes and insurance payable by the Company, approximate $30,341,000 for real estate leases and $17,764,000 for equipment leases.

Real estate leases range generally from 15 to 20 years and equipment leases from 5 to 10 years. Future minimum annual rental payments for leases in effect at December 31, 1972, are approximately as follows for each year specified.

| Year | Real Estate | Equipment | Total |
|---|---|---|---|
| 1977 | $20,696,000 | $ 9,733,000 | $30,429,000 |
| 1982 | 14,994,000 | 1,655,000 | 16,649,000 |
| 1987 | 10,441,000 | — | 10,441,000 |
| 1992 | 3,319,000 | — | 3,319,000 |
| 1997 | 225,000 | — | 225,000 |

**NOTE 10—INCOME TAXES:**

The provision for income taxes is summarized below:

| | 1972 | 1971 |
|---|---|---|
| Federal: | | |
| Current | **$15,233,500** | $13,890,650 |
| Deferred | **2,035,000** | 1,791,350 |
| State | **2,128,000** | 1,617,000 |
| | **$19,396,500** | $17,299,000 |

**NOTE 11—EXTRAORDINARY ITEM:**

The extraordinary item represents a gain on the sale of Baskin-Robbins territorial franchises.

**NOTE 12—EARNINGS PER SHARE:**

Primary earnings per share are based upon the average number of shares outstanding during each year after giving effect to subsequent stock dividends and stock splits and shares issued in exchange for businesses acquired in transactions accounted for as poolings of interest.

Earnings per share, assuming full dilution, are based upon (a) the number of shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible notes and debentures at the stated conversion rates at the earliest possible dates (related interest requirements eliminated) and (c) the number of shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with the proceeds.

**NOTE 13—COST OF SALES AND EXPENSES:**

Cost of sales and expenses are reported to the Securities and Exchange Commission in accordance with its regulations as follows:

| | 1972 | 1971 |
|---|---|---|
| Cost of goods sold, including buying and occupancy expenses | **$ 918,419,371** | $ 814,149,924 |
| Selling, general and administrative expenses | **262,347,676** | 226,852,667 |
| Interest expense | **4,078,847** | 5,855,377 |
| Contributions to Employees' Savings, Profit Sharing and Pension Plan | **4,161,000** | 3,691,537 |
| | **$1,189,006,894** | $1,050,549,505 |

TOUCHE ROSS & CO.

DALLAS FEDERAL SAVINGS BUILDING
DALLAS, TEXAS 75201

Board of Directors and Shareholders
The Southland Corporation
Dallas, Texas

We have examined the consolidated balance sheet of The Southland Corporation and subsidiaries as of December 31, 1972 and 1971, and the related statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated statements present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1972 and 1971, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Dallas, Texas
February 22, 1973

# TEN YEARS OF GROWTH

**The Southland Corporation and Subsidiaries**

| | 1963 | 1964 | 1965 | 1966 | 1967 |
|---|---|---|---|---|---|
| **Operations** | | | | | |
| Total revenues | $ 226,680 | $ 301,210 | $ 365,166 | $ 480,571 | $ 563,540 |
| *Increase for the year* | *26.15%* | *32.88%* | *21.23%* | *31.60%* | *17.26%* |
| Net earnings (Note 2) | 2,696 | 3,967 | 5,237 | 6,105 | 7,695 |
| *Increase for the year* | *24.47%* | *47.14%* | *32.01%* | *16.57%* | *26.04%* |
| *Per revenue dollar* | *1.19%* | *1.32%* | *1.43%* | *1.27%* | *1.37%* |
| Return on beginning shareholders' investment | 17.28% | 21.88% | 23.11% | 21.14% | 22.68% |
| **Assets Employed** | | | | | |
| Net working capital | 8,467 | 28,472 | 33,277 | 41,588 | 41,537 |
| Property, plant, and equipment (net) | 22,967 | 25,107 | 27,390 | 47,620 | 68,481 |
| Depreciation and amortization provision | 2,032 | 2,230 | 2,225 | 2,763 | 5,033 |
| **Debt and Equity** | | | | | |
| Long-term debt | 13,837 | 31,451 | 30,976 | 52,527 | 63,512 |
| Shareholders' investment | 18,129 | 22,659 | 28,880 | 33,931 | 41,630 |
| **Per Share Data** (Note 3) | | | | | |
| Primary earnings | .27 | .39 | .51 | .58 | .73 |
| Fully diluted earnings | .27 | .39 | .49 | .55 | .67 |
| Cash dividends | .09 | .11 | .11 | .12 | .13 |
| Shareholders' investment | 1.83 | 2.24 | 2.79 | 3.22 | 3.92 |
| **Other Data** | | | | | |
| Stock dividends | — | — | 2% | 3% | 3% |
| Stock splits | 4.2 for 1 | | | | |
| Average primary shares outstanding | 9,924,543 | 10,112,323 | 10,359,500 | 10,527,929 | 10,606,740 |
| Average diluted shares | 9,924,543 | 10,112,323 | 11,242,822 | 11,728,580 | 12,024,845 |
| Number of shareholders | 514 | 980 | 1,228 | 2,111 | 2,816 |
| Number of employees | 8,800 | 9,600 | 11,300 | 12,800 | 13,900 |

*(Dollars in thousands except per share figures)*

| 1968 | 1969 | 1970 | 1971 | 1972 | *10 Year Compound Growth* |
|---|---|---|---|---|---|
| $ 665,764 | $ 874,220 | $ 986,580 | $ 1,085,107 | **$ 1,228,350** | *21.19%* |
| *18.14%* | *31.31%* | *12.85%* | *9.99%* | ***13.20%*** | |
| 9,862 | 12,436 | 14,895 | 17,300 | **20,366** | *25.12%* |
| *28.16%* | *26.10%* | *19.77%* | *16.15%* | ***17.72%*** | |
| *1.48%* | *1.42%* | *1.51%* | *1.59%* | ***1.66%*** | |
| 23.69% | 15.32% | 14.96% | 15.27% | **14.85%** | |
| 56,906 | 76,487 | 79,856 | 83,689 | **107,912** | |
| 96,607 | 132,494 | 143,610 | 155,688 | **165,270** | |
| 7,343 | 11,616 | 15,009 | 16,247 | **17,862** | |
| 63,887 | 97,913 | 97,299 | 95,192 | **82,043** | |
| 81,170 | 99,546 | 113,285 | 137,132 | **194,202** | *28.68%* |
| .83 | .94 | 1.11 | 1.26 | **1.32** | *19.62%* |
| .75 | .84 | .99 | 1.15 | **1.25** | *18.97%* |
| .13 | .14 | .14 | .18 | **.23** | |
| 6.82 | 7.52 | 8.43 | 10.03 | **12.57** | *22.89%* |
| 3% | 3% | 3% | 3% | **3%** | |
| 3 for 2 | | | 3 for 2 | | |
| 11,903,295 | 13,230,514 | 13,435,056 | 13,678,215 | **15,446,247** | |
| 13,956,568 | 16,261,175 | 16,664,258 | 16,650,755 | **17,022,185** | |
| 7,457 | 8,079 | 8,249 | 8,866 | **9,418** | |
| 16,900 | 19,500 | 18,900 | 21,500 | **24,100** | |

Notes:

(1) Includes The Southland Corporation and subsidiaries. Data for businesses acquired under the poolings of interest concept have been included for years prior to their acquisition by The Southland Corporation.

(2) Net earnings before extraordinary items of $520,000 (addition) in 1967, $380,914 (addition) in 1969 and $496,836 (addition) in 1971.

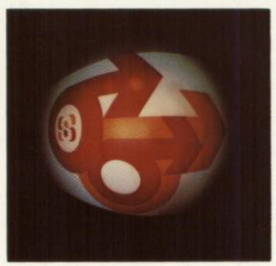
(3) Calculations of per share information are based upon the average number of shares outstanding during the respective years after giving effect to subsequent stock dividends, stock splits, and shares issued in exchange for businesses acquired under the poolings of interest concept.

# OPERATIONS REPORT

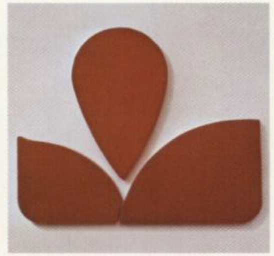
## STORE OPERATIONS

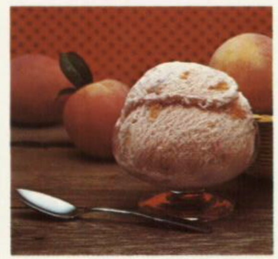




## DAIRY OPERATIONS




## OTHER OPERATIONS



THE STANFORD AGENCY, INC.

# CONVENIENCE

*Customer appeal, friendly service, accessible locations, early opening, late closing, fast shopping . . .* **CONVENIENCE.** *These have been, for 45 years, ingredients of the success "secret" of Southland's store operations.*

*Add to these basics the diversity of products in convenience stores, carefully selected to meet the needs and cater to the tastes of customers in each area:* **HOT-TO-GO** *foods at stores in neighborhoods where people work or study . . . small packages of detergent near laundromats . . . self-service gasoline on busy commuter routes . . . notebook paper and pencils, close by the candy counter, at stores on the way to school. Pay tribute to the spirit of the seasons with a free copy of the Declaration of Independence on the Glorious Fourth and an early, and carefully selected, supply of trees for Christmas. Display bundles of firewood and racks of warm mittens during an ice storm. Advertise watermelons with "the coldest seeds in town" for summer picnics. Offer favorite* **SLURPEE** *flavors in plastic football and baseball tradin' cups that display a hero's picture. And, occasionally, evoke a bit of nostalgia with the return of a good, hot cup of coffee for only 5 cents.*

*Tantalize the blase Manhattan commuter with a compelling display of glamorous* **BARRICINI** *and* **LOFT'S** *candy . . . and old-fashioned hand-dipped ice cream cones for the Wall Street broker. Tempt the continental set with lavish bon voyage fruit baskets from* **CHARLES & CO.** *Provide the ultimate in call-in service with* **GRISTEDE'S** *famous home delivery for the Park Avenue and penthouse trade . . . and individually wrapped heat-and-eat baked potatoes for urban singles.*

*Through such innovative merchandising and creative promotion, The Southland Corporation and its convenience food stores, candy shops, gourmet grocery stores, and specialty shops, sell* **CONVENIENCE** *to fit the varied needs of a changing society.*

Represented at left
is the broad spectrum of
Southland's activities.

7 ELEVEN FOOD STORES

Pak a sak FOOD STORES

GRISTEDE'S FOOD STORES

smileys SOUTHLAND FOOD CENTERS

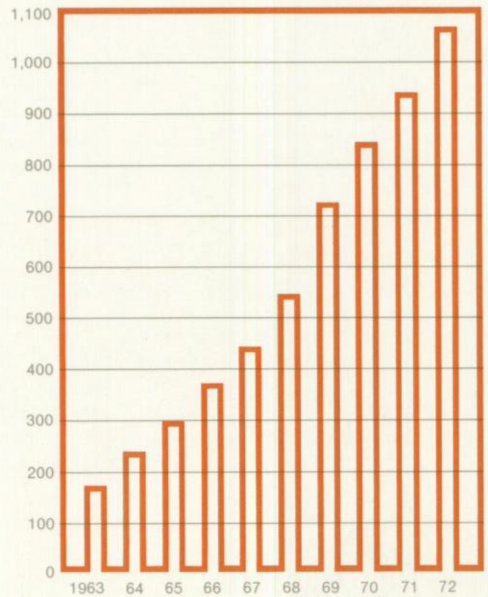
Charles & Co. PURVEYORS OF FINE FOODS CHARLES & CO.

BARRICINI CANDY SHOPS

SOUTHLAND DISTRIBUTION CENTER

BRADSHAWS SUPER MARKETS

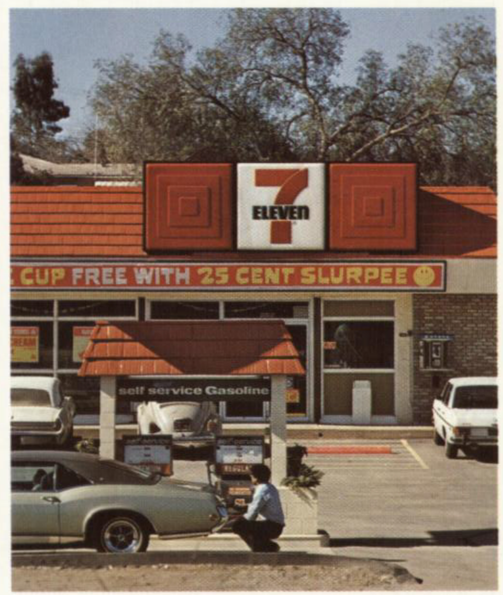
Loft's CANDY SHOPS




STORE SALES
In Millions

An increasing number of Southland's convenience stores have extended operating hours beyond the traditional 7 till 11. At year end, 2,436 stores operated on extended hours.






The 7-ELEVEN storefront designs, adaptable for compatability with area or neighborhood architecture, are easily recognized in any part of the country. Most stores contain approximately 2,400 square feet of floor space with shelf, refrigerated, and display units placed for the ultimate in customer convenience.

# STORE OPERATIONS

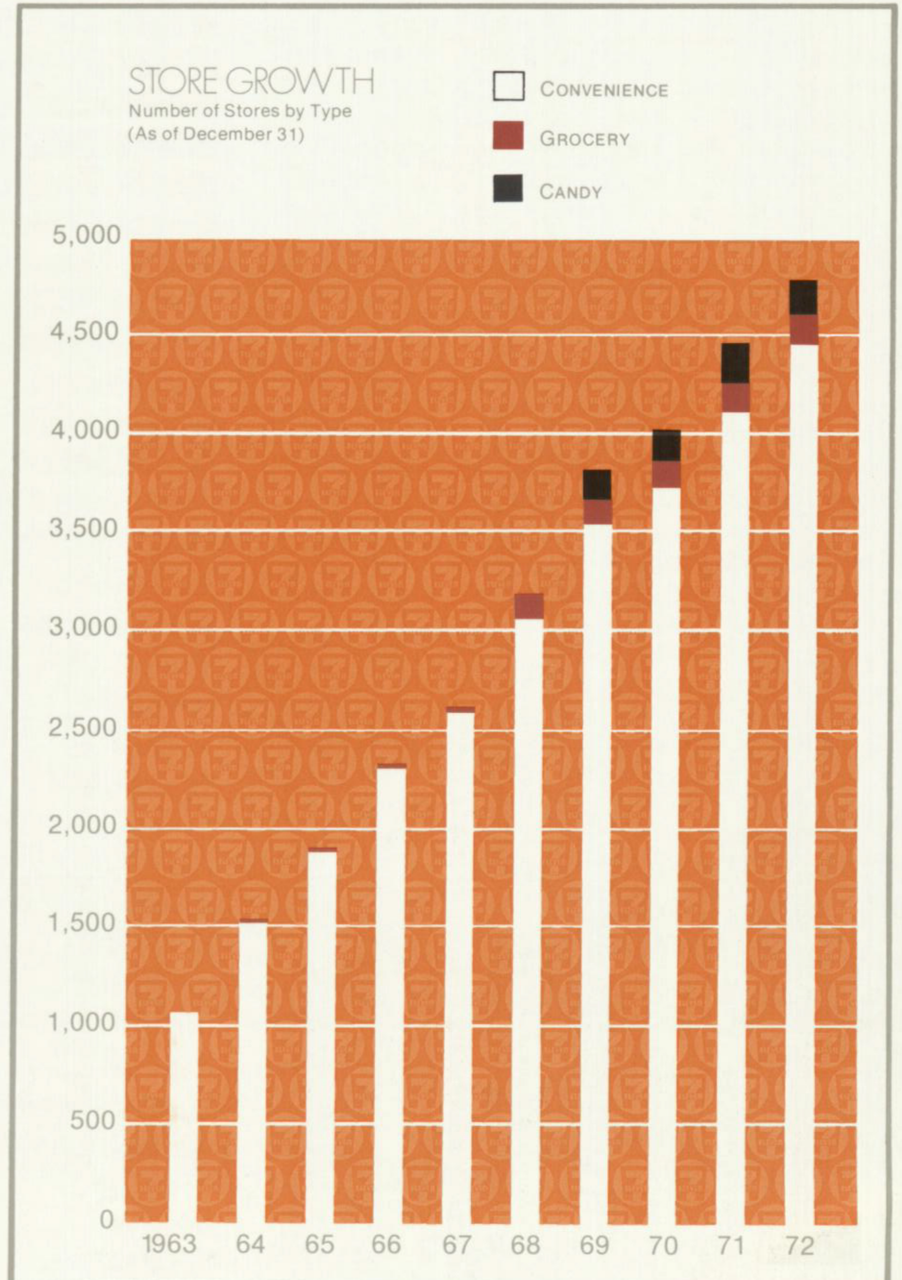
Store sales topped the billion-dollar mark for the first time in history, climbing to $1.063 billion, an increase of 14.1% over the previous year and representing 86% of corporate revenues.

The number of stores increased from 4,461 to 4,787, embracing operations in 35 states, the District of Columbia, three provinces of Canada, and Mexico. As new stores were opened during the year through geographical expansion of operations and increased penetration of existing market areas, some stores were closed because of local economic conditions, expiration of leases, or industrial and residential population shifts. The following tabulation details 1972 changes in retail store operations:

| | Opened | Closed | End of Year |
|---|---|---|---|
| Convenience Stores | | | |
| United States | 403 | 83 | 4,385 |
| Canada | 21 | — | 70 |
| Mexico | 2 | — | 3 |
| Total | 426 | 83 | 4,458 |
| **GRISTEDE'S** and **CHARLES & CO.** | 13 | 9 | 134 |
| **BRADSHAWS** | — | — | 9 |
| **BARRICINI** and **LOFT'S** | 14 | 35 | 186 |
| TOTAL | 453 | 127 | 4,787 |

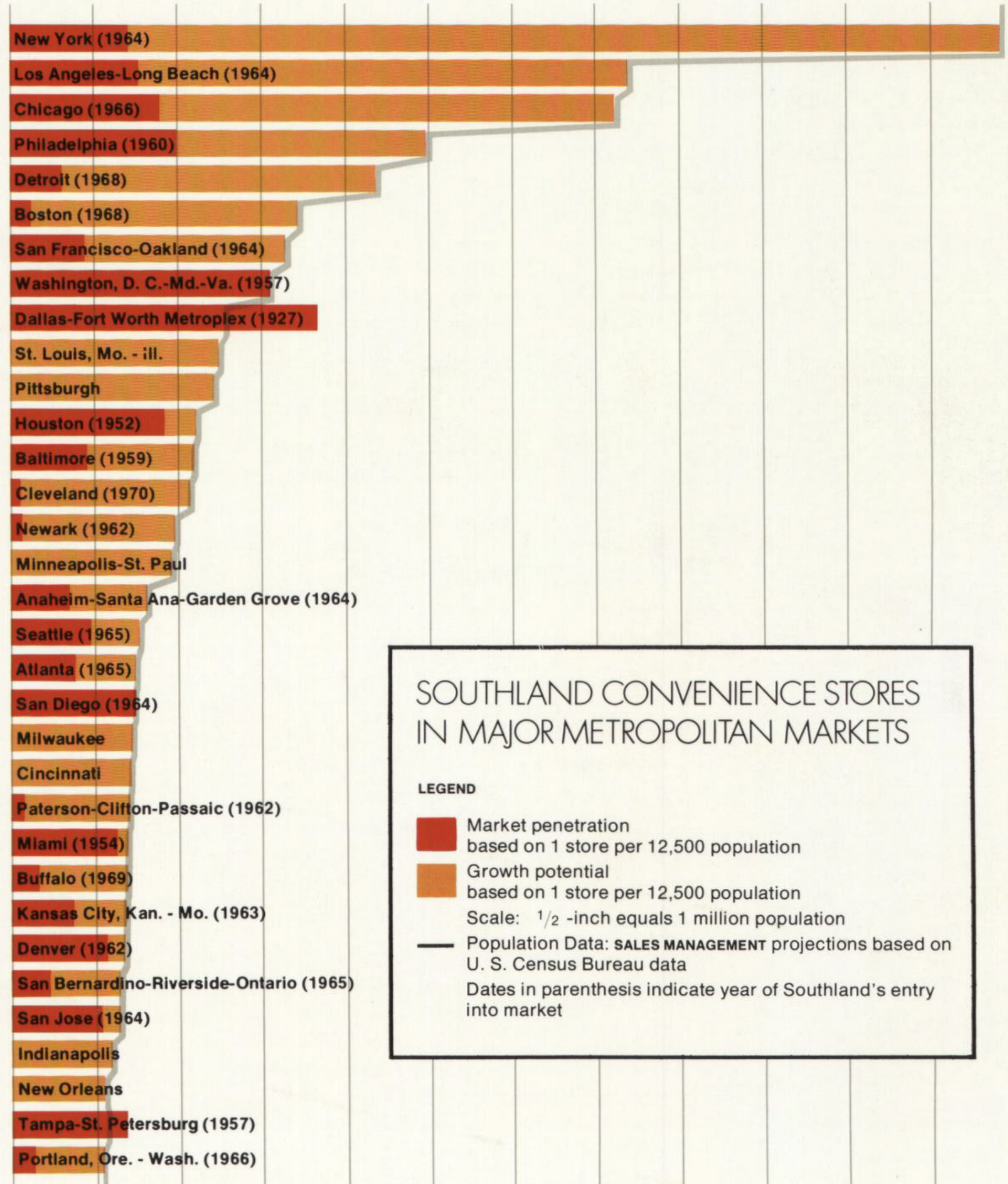
Not included in the total number of stores are more than 1,125 United Kingdom grocery stores and food-related specialty shops in which Southland has a 50% interest. The approximate annual sales volume for these operations, which will not be consolidated with Southland's revenues, is $185 million.

Currently, store operations are managed through two Regions, 14 Divisions, 48 Zones, and 151 Districts, compared to seven Divisions, 24 Zones, and 80 Districts five years ago. This flexible and dynamic management structure provides Southland with the capability—through addition of a few stores in each district—to plan an annual expansion program geared to the economy and consumer trends, while maintaining close supervision over operations.



Divisional staffs include 49 real estate representatives who work continually with the Corporate Real Estate Department and with local brokers and land developers in each operating area to locate potential store sites. Placing new convenience food stores in or near new communities and suburban residential areas is emphasized. Careful analyses of planned community development and future property values are made by both experienced real estate specialists and a highly sophisticated computer operation. Such determining factors as population trends, zoning restrictions and tendencies, competition, traffic flow, and potential economic conditions also are researched and statistically analyzed. Sales volumes are projected against real estate costs and other operational standards before commitments are made for properties. Actual operating results are compared periodically to the projections in order to refine the site evaluation program.

South of the border,
a SUPER-SIETE
store takes shape.

# CONVENIENCE STORE · REGIONS AND DIVISIONS

## EASTERN REGION

| | |
|---|---|
| NORTHEASTERN DIVISION<br>457 Stores | NEW YORK, NORTH NEW JERSEY, PENNSYLVANIA, CONNECTICUT, MASSACHUSETTS, RHODE ISLAND |
| METROPOLITAN WASHINGTON-BALTIMORE DIVISION<br>349 Stores | DISTRICT OF COLUMBIA, MARYLAND, NORTH VIRGINIA, WEST VIRGINIA |
| SOUTH VIRGINIA DIVISION<br>308 Stores | SOUTH VIRGINIA, SOUTH NEW JERSEY, DELAWARE |

## CENTRAL REGION

| | |
|---|---|
| SOUTHWESTERN DIVISION<br>448 Stores | NORTHEAST, CENTRAL, AND WEST TEXAS, NEW MEXICO |
| SOUTH CENTRAL DIVISION<br>293 Stores | SOUTH TEXAS, ARKANSAS, TENNESSEE, NORTH MISSISSIPPI |
| GREAT LAKES DIVISION<br>242 Stores | ILLINOIS, INDIANA, OHIO, MICHIGAN |
| MOUNTAIN DIVISION<br>236 Stores | MISSOURI, KANSAS, COLORADO |

| | |
|---|---|
| SOUTHEASTERN DIVISION<br>571 Stores | FLORIDA |
| SOUTHERN DIVISION<br>354 Stores | GEORGIA, NORTH CAROLINA, SOUTH CAROLINA, SOUTHWEST VIRGINIA, EAST TENNESSEE |
| PAK-A-SAK DIVISION<br>202 Stores | LOUISIANA, ALABAMA, SOUTH MISSISSIPPI, AND PENSACOLA, FLORIDA |
| WESTERN DIVISION<br>464 Stores | SOUTHERN CALIFORNIA, SOUTH NEVADA, ARIZONA |
| NORTHWESTERN DIVISION<br>461 Stores | NORTHERN CALIFORNIA, WASHINGTON, OREGON, NORTH NEVADA, IDAHO, UTAH |
| CANADIAN DIVISION<br>70 Stores | BRITISH COLUMBIA, ALBERTA, MANITOBA |
| MEXICO<br>3 Stores | |

Typical Southland convenience food stores carry approximately 3,000 different items. Although product mix is determined by local conditions and buying habits in specific areas, four general product lines—tobacco, beer and wine, dairy products, and soft drinks—account for more than half the average store's sales. In 1972, Southland's dairies supplied approximately 80% of the dairy products sold. Eleven percent of the soft drink total came from sales of a dozen **7-ELEVEN** flavors.

Other Southland brand products, including **REDDY ICE, BARRICINI** and **LOFT'S** candies, and **FARM FIELD** delicatessen salads, are sold through the stores. Bread, eggs, and margarine also are packaged and sold under the **7-ELEVEN** and various Southland dairy labels.

Recently introduced new Southland brands include **LUVIT** paper products, **SUNNY SEVEN** juices, dips, and cheeses, **SUPER SEVEN** charcoal briquets, and **SHEERLY BELOVED** hosiery. These brands are manufactured or processed by other firms to Southland's rigid specifications assuring high product quality.

Today's growing demand for fast foods, one of the most dynamic convenience store product lines, has advanced far beyond the ready-to-eat items—candy bars, cookies, cupcakes, crackers, cheeses, canned meats, cold drinks, ice cream specialties, and the like—that always have been popular with **7-ELEVEN** customers. Developing and merchandising comprehensive fast food programs increase store volume in products which have good gross margins.

During the year, Southland introduced a highly successful **HOT-TO-GO** merchandising program promoting sales of fried chicken, barbecue, enchiladas, other meat dishes, fried potatoes, sandwiches, bakery goods, coffee, hot chocolate—with the menu varying from store to store. Prepared foods are heated in microwave ovens, and the customer pauses only a minute or so before going on his way.

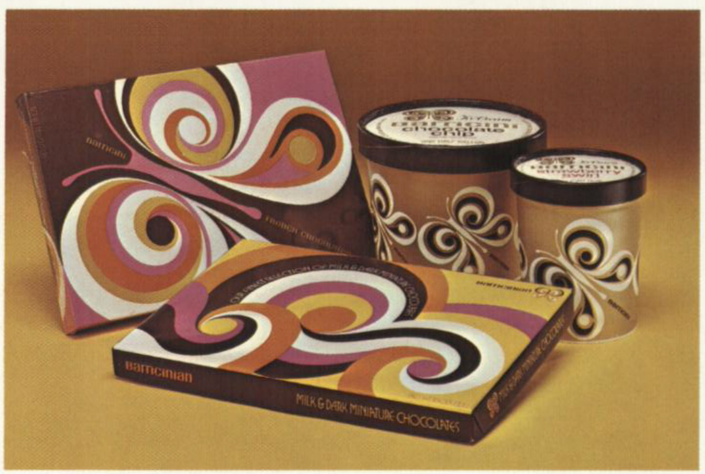
The **HOT-TO-GO** theme also promoted fast food operations in several **7-ELEVEN** divisions served by the **SMILEY'S** food preparation centers, of which there currently are two—in Fort Lauderdale, Florida, and Springfield, Virginia. **SMILEY'S** fast foods, including a variety of high quality hot and cold sandwiches, hot dogs, meat pies, pastries, and puddings, are sold in most **7-ELEVEN** stores in the divisions served by the centers. Further expansion of the popular **SMILEY'S** quality product line and marketing area currently is underway.



PERCENTAGE OF CONVENIENCE STORE SALES BY PRINCIPAL PRODUCT CATEGORY

(Based on Purchases)

| PRODUCT CATEGORY | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| Tobacco Products | 13.3% | 13.4% | 13.7% | 14.0% | **15.6%** |
| Beer and Wine | 11.1 | 11.6 | 11.9 | 12.6 | **13.5** |
| Dairy Products | 13.3 | 12.8 | 13.2 | 13.4 | **11.8** |
| Soft Drinks | 13.4 | 11.6 | 11.2 | 11.2 | **11.2** |
| Dry Groceries | 11.3 | 11.2 | 11.0 | 10.9 | **10.2** |
| Other Non-Food Items | 4.1 | 4.8 | 5.1 | 5.2 | **6.7** |
| Bread and Pastries | 6.7 | 6.2 | 5.8 | 6.1 | **6.0** |
| Health and Beauty Aids | 5.4 | 6.5 | 6.9 | 6.5 | **5.6** |
| Promotional and Seasonal Items | 7.0 | 7.1 | 6.5 | 4.5 | **2.9** |
| Other Food Items | 14.4 | 14.8 | 14.7 | 15.6 | **16.5** |
| TOTALS | 100.0% | 100.0% | 100.0% | 100.0% | **100.0%** |



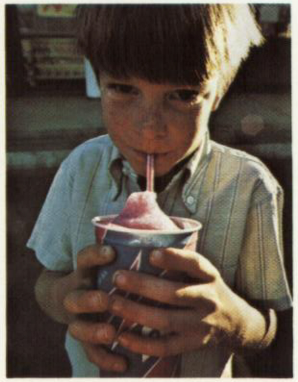
At 7-ELEVEn, customers discover new Southland brands such as LUVIT and SUPER SEVEN—and HOT-TO-GO food counters—as well as the more familiar Barricini candy and ice cream.

Stores that do not have comprehensive fast food operations increase volume through sales of kindred products—**SLURPEE**, hot coffee, hand-dipped ice cream, popcorn, popular regional snacks, and the like. In addition, an increasing number of delicatessen items are being offered by the stores.

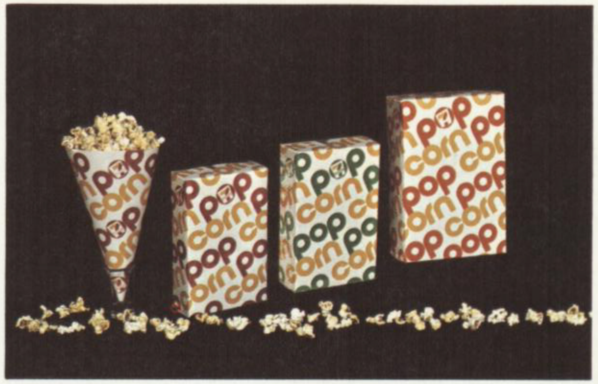
Self-service gasoline, at less than usual service station prices, is becoming an increasingly popular product line at convenience stores, and the number of units with gasoline installations increased by 149 to 356 during the year. Currently, Southland sells gasoline in 19 of the 42 states that permit self-service operations. All new store sites are being evaluated initially for the feasibility of self-service gasoline installations and, where the site will accommodate the installation and traffic flow and customer interest warrants, pumps also are being installed at existing locations. Products are purchased from independent brokers and distributors, and steps are being taken to assure ample stocks for projected expansion of this service. During 1973, assuming an adequate gasoline supply is available, approximately 175 new facilities will be added.

At year-end, 1,875 convenience food stores, 42.1% of the total, were franchised. Husband-wife franchise owners, as well as most corporate store personnel, are required to complete a minimum of one week of training in a divisional school. The course offers actual in-store experience as well as an understanding of Southland's operating procedures and corporate philosophies. Franchise owners also are provided continuous merchandising, administrative, and financial advice and counselling.

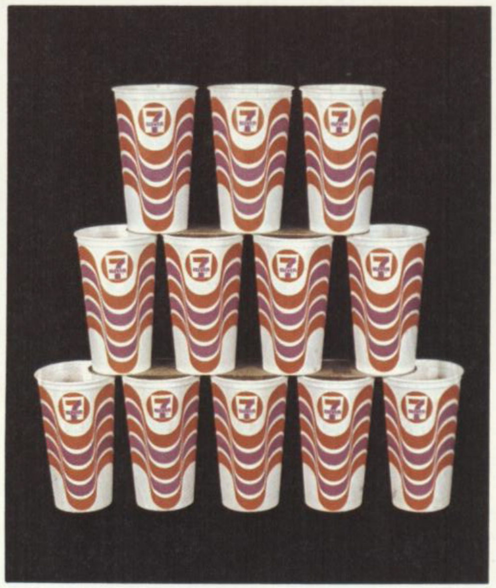
Supervisors, Field Representatives, and District Managers are required to complete courses of instruction at the Management Training Center in Dallas. These programs include thorough explanations of the principles of management, the psychology of supervision and counselling, and modern concepts of communication. They are conducted in question-and-answer sessions with members of the corporate staff, supported by video cameras and tapes, movies, charts, simulation games, case studies, and self-evaluation tests. Field Representatives and staff members in franchise areas are provided additional instructional tools designed to assure full disclosure and explanation of the franchise agreement.

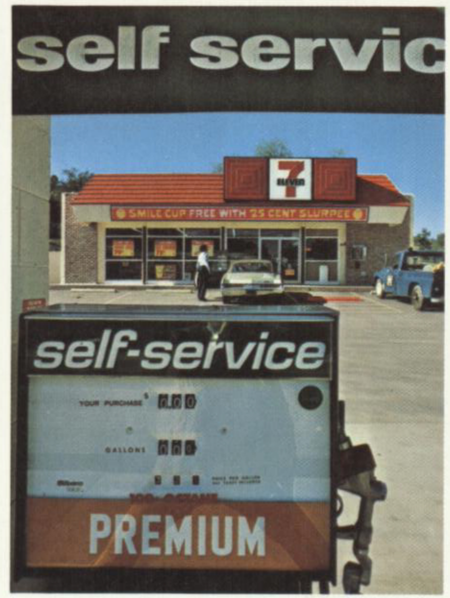
Intensified merchandising promoted sales of the new **SHEERLY BELOVED** and **SUNNY SEVEN** labels as well as the increasingly popular **SLURPEE**, **7-ELEVEN** soft drinks, pop corn, fountain drinks, and self-service gasoline.


pop corn

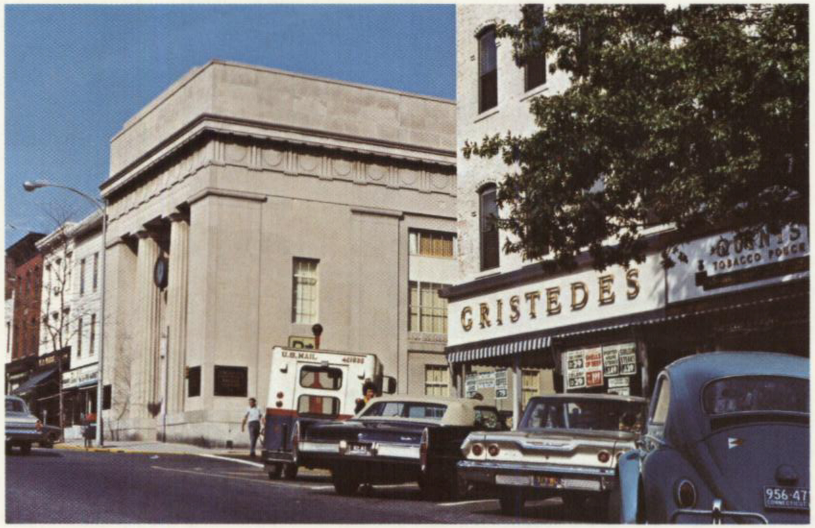

Panty Hose
Queen Size
fully guaranteed

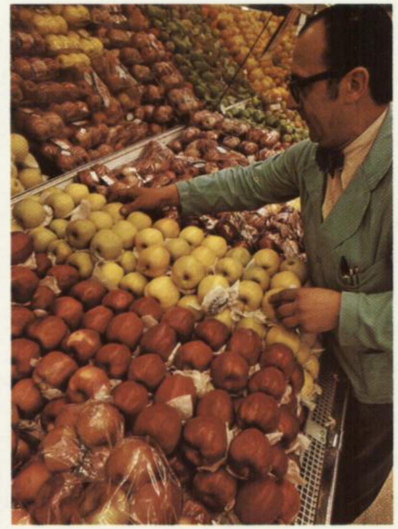



FROZEN CONCENTRATED
orange juice
6 FL. OZ.
the finest VALENCIA blend
sunny seven


self servic
7 ELEVEN
SMILE CUP FREE WITH 25 CENT SLURPEE
self-service
PREMIUM

7 ELEVEN

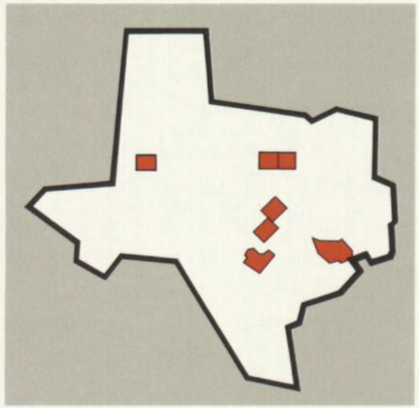


In New York, convenience can mean dialing GRISTEDE'S and having the highest quality groceries delivered to your kitchen.

Southland's customers appreciate the convenience and excellence of HOT-TO-GO snacks and hand-dipped ice cream.

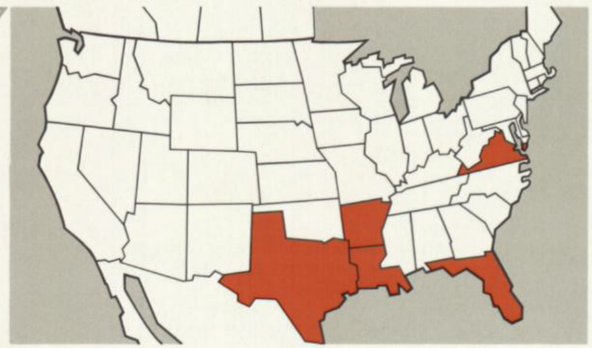
1952



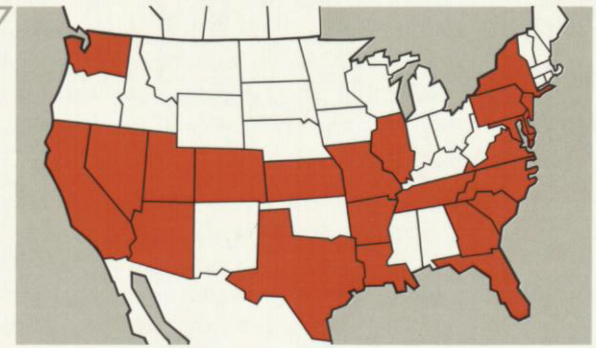
# GEOGRAPHIC EXPANSION

Over the past two decades, Southland's convenience store expansion has increased the geographic operating area from seven counties of Texas with 116 stores to 35 states, the District of Columbia, Canada, and Mexico, with 4,458 convenience stores.

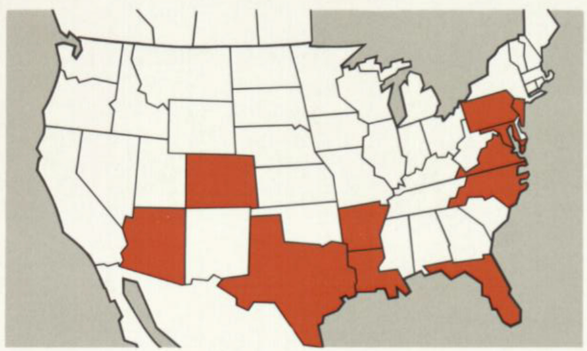
1957



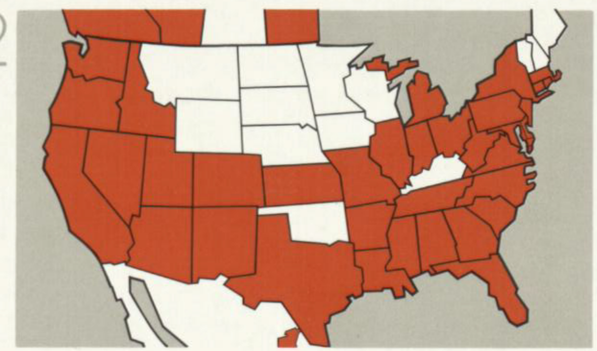
1967



1962



1972



# southland distribution center

Distribution—getting the right merchandise in the right quantities to the right stores at the right time—is increasingly vital to the successful operation of convenience stores. To increase sales volume and remain competitive, convenience stores must: ● Obtain maximum merchandising impact from every inch of available shelf and floor selling space. ● Tailor the mix and quantities of products to the individual inclinations of each store's particular customers. ● Optimize merchandise turn-over through intelligent and flexible procedures for ordering combined with "quick turnaround" and efficient deliveries. ● Provide ample parking space for customers and minimize non-selling distractions of store salesmen by reducing the number of vendor deliveries.

In recent years, the distribution of merchandise to convenience stores has grown more complicated, costly, and time consuming due to such factors as: ● Growth in number of stores. ● Refinement of the product mix, resulting in the ordering of smaller quantities of some products. ● Increase in the number of suppliers making deliveries to each store. As a result, convenience store operators have sought a more efficient and systematized method for getting merchandise onto the shelves. However, any new distribution concept still must provide for frequent deliveries by individual suppliers of such popular items as bread, dairy products, other perishables, beer, wine, and soft drinks. Many concepts have been tried, but none offered the range of benefits desired by 7-ELEVEN.

Southland determined that the most efficient and productive way to satisfy the singular and particular needs of 7-ELEVEN stores was to develop its own distribution system. It would incorporate sophisticated computer order processing procedures and custom-designed automated merchandise flow and delivery equipment. Operational efficiencies as well as savings in time, space, and money, and therefore, improved profitability, were the prime objectives.

After testing the concept for more than a year, Southland opened its first Regional Distribution Center in August, 1971, serving 29 stores. By January 1, 1972, more than 550 Florida 7-ELEVEN stores were being supplied with tobacco products, candy, dry groceries, refrigerated merchandise, health and beauty aids, promotional and seasonal items, and many other non-food items. The center now furnishes merchandise representing about 35% of a store's sales.

Success of the Orlando Center prompted construction of additional installations. Currently, the system embraces three Regional Distribution Centers *(in the order pictured at right):*

1 Located in Orlando, Florida; containing 170,000 square feet of dry and refrigerated warehouse space; serving 550 stores; opened in August, 1971.

2 Tyler, Texas; 350,000 square feet; 850 stores; to open in spring, 1973.

3 Fredericksburg, Virginia; 478,000 square feet; 1,150 stores; to open in fall, 1973.

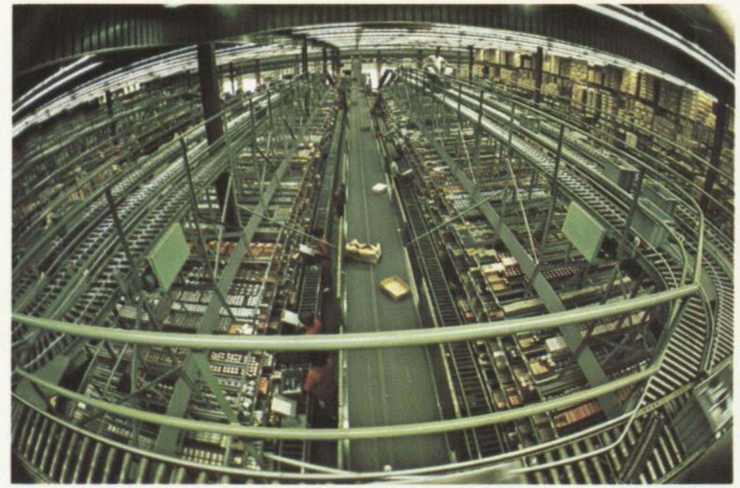
## DISTRIBUTION CENTER BENEFITS

- Provides reliable and economical continuous source of supply, enabling individual stores to control product mix and to order precise odd-lot quantities.
- Frees 300 to 400 shelf feet of selling space per store for fast food counters, seasonal promotions, expanded merchandise mix, additional services, and products new to the marketplace.
- Puts fresher, cleaner merchandise in stores—improving appearance appeal—and eliminates slow-moving products.
- Reduces store inventory while improving in-stock efficiency, resulting in improved turn-over and higher sales.
- Permits centralized buying at volume savings and pre-marking of merchandise for accurate retail pricing.
- Aids development and promotion of Southland label programs, testing of new products, and creative merchandising on selected store basis.
- Simplifies store ordering, stocking, and auditing procedures while providing for faster, more accurate product movement data.

1

2


3

Custom-designed conveyor equipment speeds merchandise to computer-scheduled trucks which deliver refrigerated and dry products to 7-ELEVEN stores.

# DAIRY OPERATIONS

For the year, Dairy Divisions sales increased 9.2% to $218 million, including intercompany sales of $71.9 million, up from $199.7 million and $62.7 million, respectively, for 1971. Sales to outside customers increased 6.7%, and intercompany sales rose 14.6%. Dairy sales to outside customers accounted for 12% of 1972 corporate revenues.

In addition to the steadily rising cost of raw milk, the American dairy processing industry continued to experience a mixture of other variable pressures on margins during the year. Consumer resistance to price adjustments remained strong. Phase II both delayed and restricted price adjustments to recover other than raw product cost increases. In certain markets, primarily the Greater Chicago area, discount pricing by some dairies to build volume at the expense of profits was a significant factor. Fortunately, all markets do not encounter margin problems simultaneously or with the same severity. The geographic spread of Southland's dairies helped minimize the effect of these pressures, as did the increase in their overall productivity, attributable to the sustained plant modernization and automation program, and greater efficiencies in distribution. As a result of these continuing pressures on margins, however, operating earnings of the Dairy Divisions did not increase proportionally with revenues.

Serving 27 states and the District of Columbia with fine dairy products in distinctive packages bearing Southland's increasingly familiar dairy trademark, the Dairy Divisions expanded sales of milk and related products by 8.7% and of ice cream and related products by 7.2% over 1971. The flowing, contemporary trademark—two-color coded for each different product—is the dominant feature of the label designs which preserve each of Southland's respected dairy names. Dairy products are delivered to hundreds of thousands of retail and wholesale customers, including Southland's stores, in more than 50 major cities by a fleet of approximately 3,000 refrigerated vehicles.

ADOHR FARMS
BANCROFT
BLUFF VIEW FARMS
BRIGGS
CABELL'S
COOPER FARMS
EMBASSY
HARBISONS
HORTENS
MIDWEST FARMS
OAK FARMS
SPRECKELS
VELDA FARMS
WANZER'S

Discriminating shoppers for delicatessen foods are now looking for the **FARM FIELD** label.

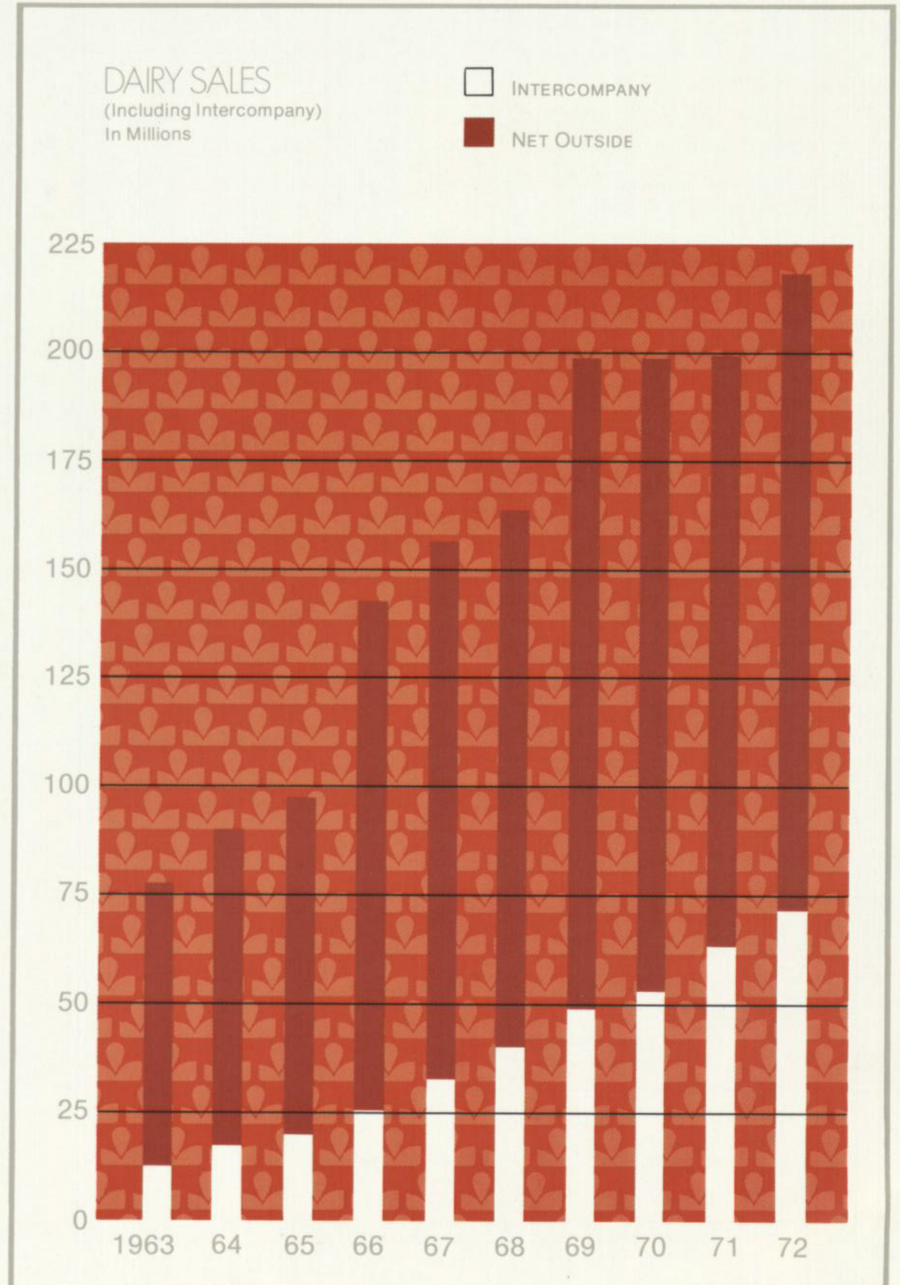
**FARM FIELD** delicatessen salads joined the dairy products line in 1972 with the opening of a Food Products Division facility in Fort Worth, Texas. Meat, vegetable, and fruit salads packaged in institutional, retail, and individual portion containers are being marketed throughout Texas, Colorado, Arkansas, Louisiana, and Tennessee. Steps currently are being taken to expand both the product line and the marketing area.

Management of the Dairy Divisions was reinforced during 1972 through Regional and Divisional realignments enabling greater operating efficiencies and providing a stronger structure for future expansion.

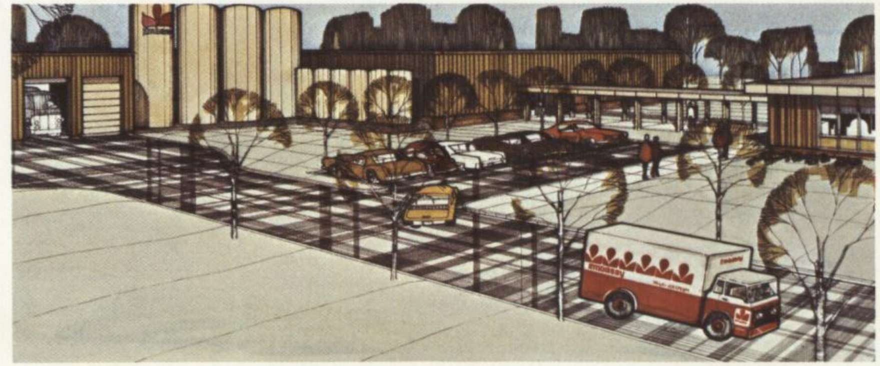
Due to Southland's long-standing program of investing in modernization and automation of its dairies, no significant additional expenditures were required in order to comply with the Occupational Safety and Health Act. New construction and maintenance of optimum safety standards now are coordinated with OSHA requirements as well as with increasingly rigid local health requirements.

In 1972, the **ADOHR FARMS** cottage cheese processing plant in Tulare, California, was remodeled, and annual capacity was expanded to 14 million pounds.

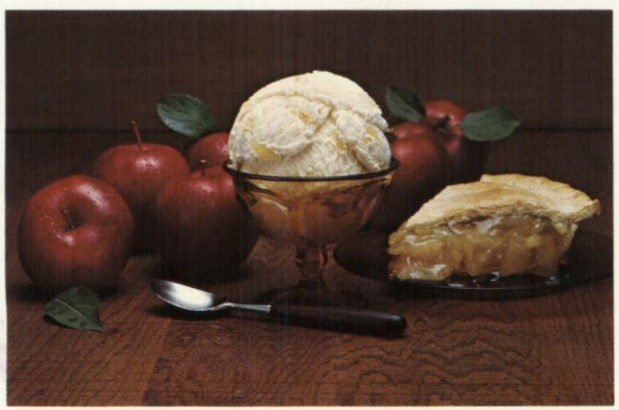
Currently underway is a $400,000 modernization of the ice cream processing facility of **MIDWEST FARMS** in Memphis, Tennessee. Additional branch distribution facilities are being constructed in Nashville, Tennessee, for **MIDWEST FARMS** and in Orlando, Florida, for **VELDA FARMS.** In Dallas, the **OAK FARMS** plant also is being extensively remodeled and modernized.



Late in 1972, the existing **EMBASSY** plant was purchased by the District of Columbia for an urban renewal project. **EMBASSY** will continue to operate at its present location until planned construction of an ultra-modern facility (at right) is completed in 1975. The new plant would have an annual milk processing capacity of 15 million gallons, and the highly automated facility would enable **EMBASSY** to expand and improve its dairy service to the three million residents of the national capital metropolitan area.

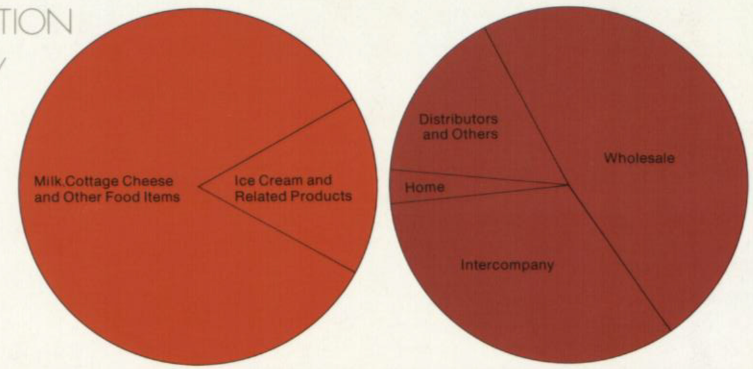



The Specialty Foods dairy product line ranges from orange juice to blue cheese dip.



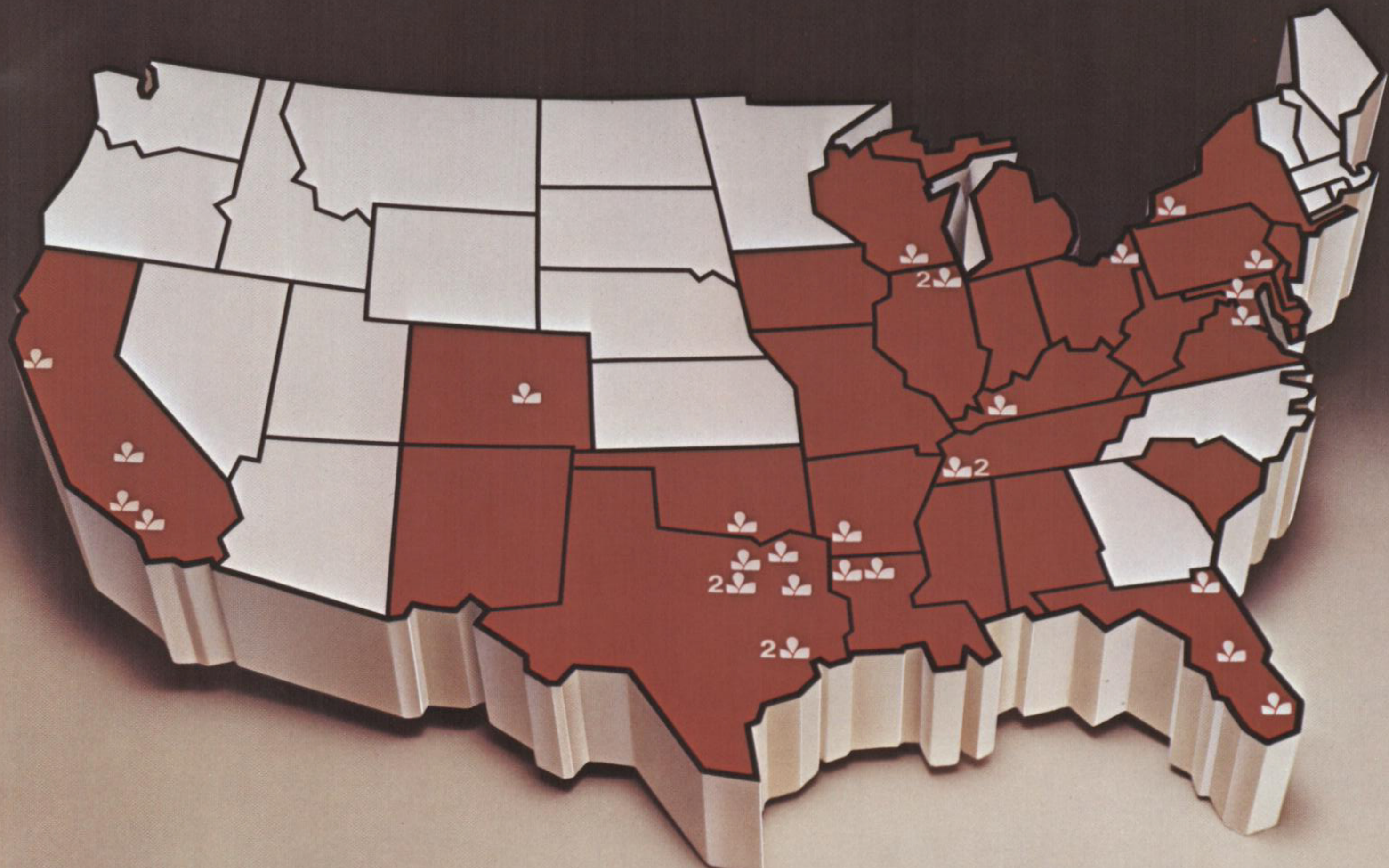
Ice cream's back!

## DISTRIBUTION OF DAIRY SALES...




| PRODUCTS | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| Milk, cottage cheese and other food items | 82% | 84% | 84% | 84% | **84%** |
| Ice cream and related products | 18 | 16 | 16 | 16 | **16** |
| TOTALS | 100% | 100% | 100% | 100% | **100%** |

| CUSTOMER | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---|---|---|---|---|
| Wholesale | 41% | 41% | 42% | 44% | **48%** |
| Intercompany | 24 | 24 | 27 | 32 | **33** |
| Home Deliveries | 18 | 19 | 8 | 4 | **3** |
| Distributors and Others | 17 | 16 | 23 | 20 | **16** |
| TOTALS | 100% | 100% | 100% | 100% | **100%** |



# DAIRY DIVISIONS MARKETING AREA

STATES SERVED BY SOUTHLAND DAIRIES

PROCESSING PLANTS

# OTHER OPERATIONS

Although representing less than 2% of Southland's revenues, the truck-leasing, candy, chemical, ice, and advertising operations experienced good growth in 1972. Combined sales and revenues were $19.7 million, an increase of 14.5% over the $17.2 million for 1971.

In its first full year with Southland, Hudgins Truck Rental, Inc., attained excellent results. To handle its full-maintenance leases with major companies, Hudgins operates garages and has 200 employees in Houston, Dallas, Fort Worth, El Paso, and Arlington, Texas, Miami and Orlando, Florida, and Sikeston, Missouri. New maintenance facilities are being constructed in Tyler, Texas, and Fredericksburg, Virginia, to service Southland Distribution Center fleets in these locations.

During 1972, a 40,000-square-foot addition to the Chemical Division's Dallas Plant was completed. Production capacity was increased for **CRE-MEL** basic flavor compounds and fountain syrups as well as other products for food processing, cleansing and sanitizing agents, and other specialty chemical products marketed under the **SOUTHLAND** label. Approximately 43% of sales were intercompany with the balance sold primarily to other manufacturers and retailers in the United States, Mexico, Puerto Rico, and the Virgin Islands.

**REDDY ICE**, Southland's oldest division, increased sales in 1972 and added an ice plant in Las Vegas to its operations. Currently under construction is a completely automatic 50-ton turbo ice-making facility and processing plant in Austin, Texas. **REDDY ICE** manufactures block and processed ice for commercial and wholesale customers in Florida, Georgia, Nevada, and Texas, as well as **7-ELEVEN** stores in these states. In addition, ice is distributed in California, Arizona, and Alabama. Approximately 35% of the division's sales are intercompany.

HUDGINS TRUCK RENTAL

Reddy ice

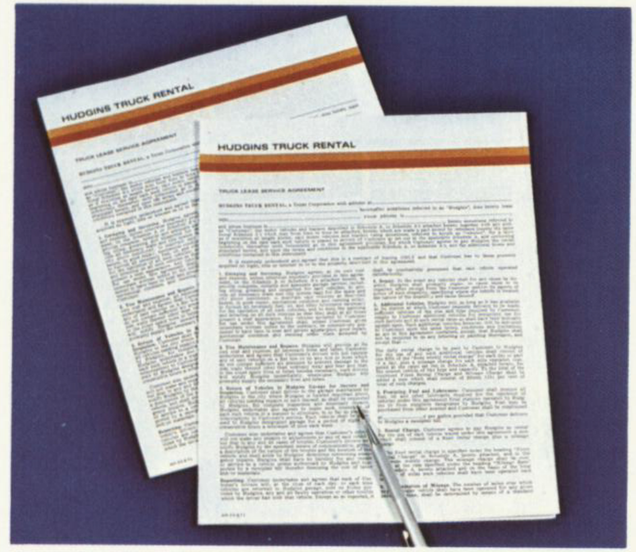
BARRICINI CANDY SHOPS

CHEMICAL

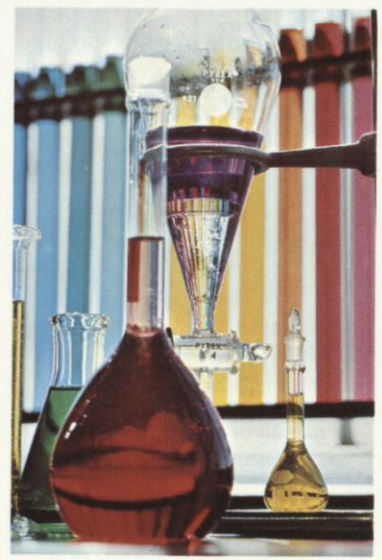
THE STANFORD AGENCY, INC.

Loft's CANDY SHOPS

Hudgins, REDDY ICE, and Southland Chemical Division provide diversification of operations.

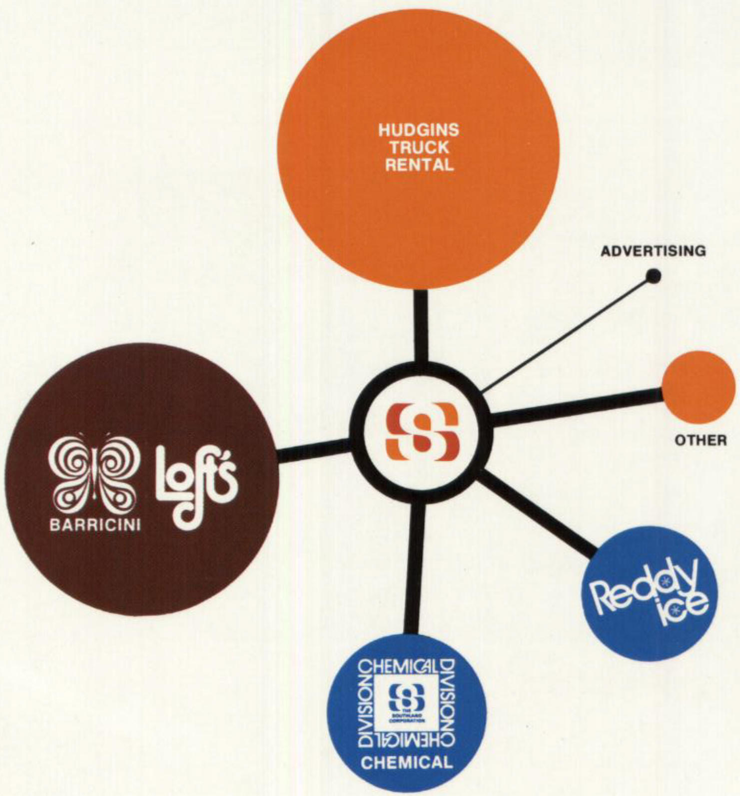



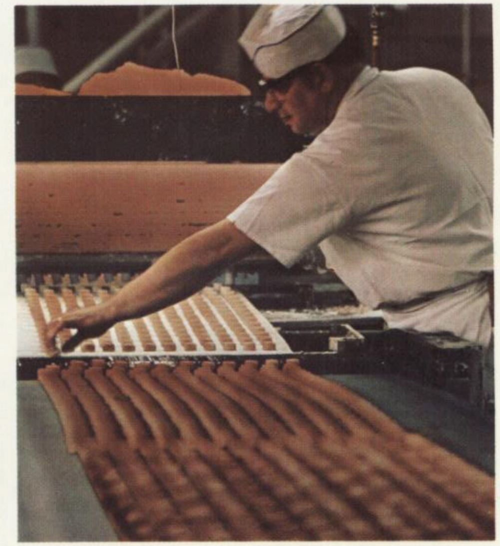




**BARRICINI** and **LOFT'S** wholesale candy business increased sales through approximately 2,600 drug store, department store, gift-and-card shop, supermarket, and other retail outlets in 38 states, the District of Columbia, and Puerto Rico. Wholesale customers accounted for 51% of total candy sales. In order to streamline operations, both plant and stores recently have been combined into a single division. The newly formed Candy Division consists of the existing manufacturing plant in Long Island City, New York; a recently completed warehouse in Secaucus, New Jersey, and 186 stores, primarily on the East Coast.

A new business for Southland began with the incorporation of The Stanford Agency, Inc., formerly the in-house advertising department, which began developing advertising accounts with outside clients. A staff of 42 account executives, copywriters, artists, and production people now handle, in addition to the advertising for Southland's stores, dairies, and other operations, a growing volume of outside business.

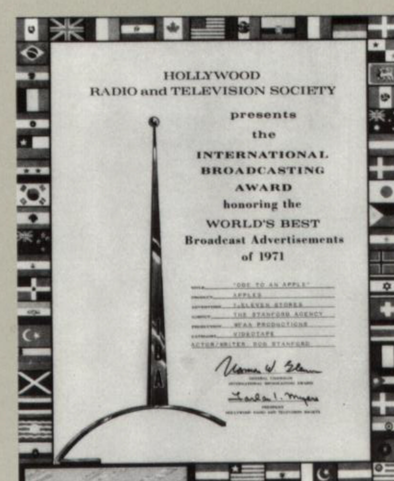


As Valentine's Day nears,
**BARRICINI'S** production lines hum.

Stanford has won numerous
awards for effective advertising.

## THE STANFORD AGENCY, INC.


HOLLYWOOD
RADIO and TELEVISION SOCIETY
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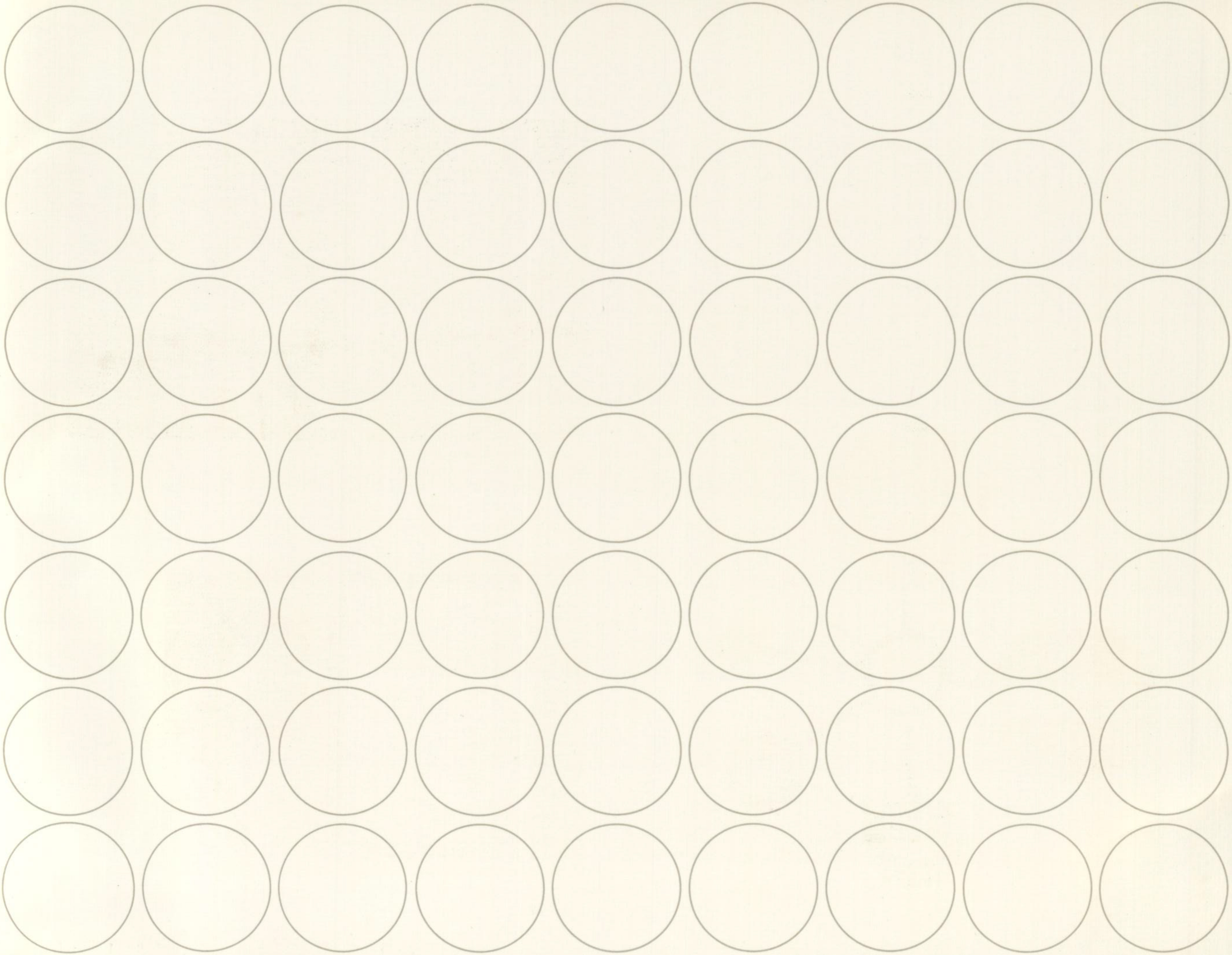
INTERNATIONAL
BROADCASTING
AWARD
honoring the
WORLD'S BEST
Broadcast Advertisements
of 1971



# 1972 • A YEAR OF CONTINUING GROWTH

# THE SOUTHLAND CORPORATION ANNUAL REPORT

THE SOUTHLAND CORPORATION — P.O. BOX 719 — DALLAS, TEXAS 75221